

Patricia M. French  
Senior Attorney



300 Friberg Parkway  
Westborough, Massachusetts 01581  
(508) 836-7394  
(508) 836-7039 (facsimile)  
[pfrench@nisource.com](mailto:pfrench@nisource.com)

July 27, 2006

BY OVERNIGHT DELIVERY AND E-FILE

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 06-31

Dear Ms. Cottrell:

Enclosed for filing, on behalf of Bay State Gas Company ("Bay State"), please find Bay State's supplemental response to the following Information Request:

From the DTE:

DTE-BSG-1-10 (C) Supp. (BULK RESPONSE)

Please do not hesitate to telephone me with any questions whatsoever.

Very truly yours,

Patricia M. French

cc: Paul Osborne (DTE)  
A. John Sullivan (DTE)  
Alexander Cochis, Assistant Attorney General (4 copies)  
Charles Harak, Esq. (UWUA)  
Nicole Horberg Decter, Esq. (USW)  
John K. Habib, Esq.  
James Avery, Esq.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIRST SET OF INFORMATION REQUESTS FROM THE DTE  
D.T.E. 06-31

Date: July 27, 2006

Responsible: Stephen H. Bryant, President

**SUPPLEMENTAL BULK RESPONSE**

DTE-BSG-1-10      Refer to Exh. BSG-1, at 9, lines 17-18. Provide any printed information or plans regarding the business model Bay State and NiSource has implemented. As part of this response, discuss the overall management objectives of NiSource.

RESPONSE:      Please see Attachment DTE-BSG-1-10 (A) for a copy of pages 23-25 of NiSource's 2005 10K. In particular, Item 7 – Management's Discussion and Analysis of Financial Conditions and Results, includes a discussion of NiSource's overall business plan (i.e., the Four Point Platform for Growth), and a 2006 Outlook. The business plan includes the following four key management objectives: (1) expansion and commercial growth in the pipeline and storage business, (2) regulatory and commercial initiatives, (3) financial management, and (4) process and expense management. These four objectives are the foundation upon which NiSource (and therefore Bay State) have built the transformation business model that is reflected in the current organizational structure and budgeting processes. In addition, Bay State continues to research this request and will supplement this response when additional information has been compiled.

Attachment DTE-BSG-1-10 (B) includes a copy of NiSource's current organizational chart showing senior management levels at both NiSource and Bay State.

See the Company's response to UWUA-1-7 for a description of Bay State's capital and operations budgeting processes.

**SUPPLEMENTAL BULK RESPONSE**

Please see the Attachment DTE-BSG-1-10 (C) for copies of NiSource employee communications related to IBM outsourcing and transformation between February 2005 to July 20, 2006. Included in these various communications are discussions related to the implementation of NiSource's overall business plan described above.

## **Distribution Operations announces training and regulatory compliance reorganization**

Posted: 07-20-2006 at 05:00 Eastern Time

**Peg Landini**, vice president support operations and **Shawn Patterson**, vice president engineering announce the reorganization of the NiSource Distribution Operations training and regulatory compliance functions. Effective Aug. 15, all Distribution Operations regulatory compliance functions will report under the new engineering organization led by Patterson and the training function will report under the new support operations organization led by Landini.

### **Distribution Operations Training**

**Kris Emaus**, NIPSCO training manager, has been named NiSource training manager responsible for leading the technical training and supporting leadership development for the NiSource Distribution Operations gas and electric functions. In her new role, Emaus will be responsible for partnering with field operations and engineering leadership to provide the technical training for gas and electric distribution and electric generation that complies with federal and state regulatory requirements. She will partner with NiSource organizational development to provide supervisory education and leadership development support as well.

"Having a single, focused training organization serving NiSource gas and electric operations will help drive consistency, and allow us to share resources to support the operating model," said Landini. "I am pleased that Kris has agreed to lead this new organization. She brings the utility knowledge and experience needed to take our training to the next level."

In addition to Emaus, the training leadership will include lead persons for electric generation and distribution, gas distribution and instructional design functions. These leadership positions will be posted within the next few weeks. In addition to those currently reporting to Emaus, the following former Columbia regulatory compliance and training (RC&T) individuals will be aligned with the new training organization:

- **Dawn Bass**
- **Mike Clark**
- **Linda Crowley**
- **Mike Douglas**
- **Tim Funk**
- **Tom Hickman**
- **Larry Krummert**
- **Angie Lewis**
- **Dave Shepler**
- **Michelle Snyder**
- **Larry Springer**
- **Gerald Wills**

### **Distribution Operations Regulatory Compliance**

On [June 30](#) the new engineering organization was announced by Shawn Patterson. The current regulatory compliance functions will be included in the standards and compliance area under the leadership of **Kevin Swiger**. Standards and compliance, will encompass NiSource Distribution Operations-wide management of codes and standards (policy and procedure), oversight of regulatory compliance (including external regulatory agencies), performance of operational compliance audits and process reviews, administration of broad-based compliance programs such as damage prevention, Operator Qualification, Pipeline Integrity Management, Public Awareness (RP 1162), and meter sampling, and the support of field operation efforts

with staff expertise in specialties such as measurement, pressure regulation, corrosion and leakage management.

Swiger said, "Centralized leadership of standards and compliance is a key component in Distribution Operations' ability to *Transform to One*. Transformation begins with having common operating standards which are broadly communicated. This is followed by a disciplined approach to assure compliance to the standards and a mechanism to adjust standards when appropriate."

While details of the overall structure within the standards and compliance function are being formulated, those employees moving from the former Columbia regulatory compliance and training (RC&T) organization will continue reporting to their current leaders. The new standards and compliance leadership team will be finalized late third or early fourth quarter with the balance of the transition completed by the end of the year. The following former Columbia RC&T employees will be aligned with the new standards and compliance organization:

- **Bryan Adams**
- **Tonya Anderson**
- **Mike Breighner**
- **Keith Campbell**
- **Paul DeBlasis**
- **Amy Furlong**
- **Ray Geesey**
- **Jim Hastings**
- **Al Jimison**
- **Justin Magestro**
- **Tim McKune**
- **Jeannie Myers**
- **Barry Mullins**
- **Michael Ramsey**
- **Rob Smith**
- **Jerry Taggart**
- **Phil Wilson**

"The role and responsibility of the regulatory compliance organization is critical to ensuring the monitoring and troubleshooting compliance issues across NiSource distribution operations," said Patterson. "I look forward to working with the standards and compliance team and field operations in a collaborative effort in making sure we raise the bar in providing consistent regulatory compliance across NiSource distribution operations."

## Organization changes announced in Work Management-GIS and Support Operations

Posted: 06-27-2006 at 11:59 Eastern Time

Work Management and GIS Vice President **Meg Brown** and Support Operations Vice President **Peg Landini** announce changes to their organizations. These changes continue the organizational alignment in support of the NiSource Distribution Operation's Transforming to One and the ongoing commitment to operational excellence. All of the changes are effective immediately.

**Marie Walker**, manager, operations services at Bay State Gas/Northern Utilities (BSG/NU), will assume the role of performance improvement manager for NiSource Distribution Operations, reporting to Brown. In her new role, Walker will be responsible for the oversight of the NiSource Distribution Operations financial performance results, and for the creation of a NiSource Distribution Operations Transformation Benefit Realization program. The new Benefit Realization program is designed to ensure the NiSource Distribution Operations organization is focused on maintaining awareness and achievement of the envisioned benefits associated with major initiatives. Walker brings to her new position a wealth of experience, including leading the WM-GIS team's Business Performance Management (BPM) team and the development of the future Management Dashboards.

Additional changes include:

- **Kathy Silver**, supervisor instrumentation at BSG/NU, has been promoted to manager, operation services at BSG/NU. She will report directly to Landini.
- **Arthur O'Brien**, resource planner-scheduling at BSG/NU, will take on an expanded role as scheduling and logistics leader at BSG/NU. He will report to Silver.
- The measurement responsibilities currently reporting to Silver will be reassigned to **Dana Argo**, manager, system operations at BSG/NU. He will continue to report to **Dan Cote**, general manager, NiSource East.

For any additional questions related to the WM/GIS Project or associated organization changes, please submit them to the WM/GIS Project Lotus Notes mailbox at: [wm-gis.project@nisource.com](mailto:wm-gis.project@nisource.com).

## HR Manager Tools set to go live Aug. 1 with training slated for July and August

Posted: 06-27-2006 at 03:00 Eastern Time

The new Human Resources (HR) Manager Tools and related applications are on schedule to launch throughout NiSource on Aug. 1. Managers across the enterprise have been attending ***A Day in the Life*** presentations to learn more about components of Manager Tools, and training will be conducted in July and August.

Employees will begin receiving invitations to register for training through the Learning Management System (LMS) in the next few weeks. In LMS, employees will be prompted to register for the training that is based on their role and how often they'll be using the system. Employees will see a list of required courses along with options for the available training format (i.e. Sametime, instructor led).

The Manager Tools transformation consists of a number of components - an upgrade to **PeopleSoft**; a new job posting/bidding system called **Recruiting Solutions**; a new on-line **Compensation Tool** to replace the current Lotus Notes database; and a new **Manager Desktop** that provides a number of on-line management capabilities related to job data, employee transactions, salary-related tasks and workflow process management.

Manager Tools will provide more accurate, real-time information, enabling more effective decision making and efficient operations. It will also offer flexibility and "anytime" access to employee information and the ability to manage HR tasks "on demand."

The HR Transformation team is participating in a cross-tower planning activity that has helped to design a consistent and effective support framework (or architecture) to ensure that employees have the support they need to get questions and problems resolved easily when Manager Tools goes live in August. **[View the \*Where to go for help for Manager Tools after Go Live\* document.](#)**

For more information on HR Transformation training and the upcoming changes, please visit the **[Business Process Outsourcing \(BPO\) Transformation community](#)** on *MySource*.

In the **[HR folder](#)** on *MySource*, you'll find ***Frequently Asked Questions***, the ***A Day in the Life*** presentations and more. And, any questions you may have may be directed to any member of the **[HR Transformation team](#)**.

## **June Transformation Update II & new poster feature user support**

Posted: 06-23-2006 at 13:00 Eastern Time

One of the critical factors of a successful transformation is support for the end user once new systems, applications, and processes are implemented. This month's second ***Transformation Update*** and a new poster focus on the resources that are currently available and those that will become available to new users after Go-Live.

User support is as easy as 1-2-3!

1. **Use online resources**
2. **Consult a power user**
3. **Contact the NiSource Help Desk**

The **June 2006 Transformation Update II** and the **user support poster** can be printed and posted to office walls and bulletin boards to serve as quick reference guides for support in the new applications that are coming online in GT&S (Pipeline) and NiSource Corporate Services on July 1.

Visit the **BPO Transformation Community on MySource** to access training resources, quick reference guides, FAQs, user support information, and more.

## Organization, leadership changes announced in IT

Posted: 06-22-2006 at 03:00 Eastern Time

**Violet Sistovaris**, senior vice president for Administrative Services, today announced several organization changes in NiSource's Information Technology (IT) function.

**Julie McElmurry**, Project Management Office (PMO) lead in the NiSource Governance group, has accepted the new role of leading NiSource's IT organization. Effective July 1, McElmurry will serve as vice president of IT and tower lead, reporting to Sistovaris.

Reporting to McElmurry in her new role will be: **Eric Fletcher**, IT business relationship director; **Sandy Pullin**, IT business relationship director; **Deana Borovich**, IT architecture manager; **Jim Downerd**, IT service performance manager; **Jeff Perz**, IT service performance manager, and **Yolanda Smolar**, administrative assistant.

**Dick James**, current vice president, IT, is assuming the new role of vice president of IT Security & Compliance reporting to McElmurry. Reporting to James will be: **Mike Daumer**, director of IT compliance assurance; **Gordon Kinney**, manager of IT regulation and compliance; **Josh Anderson**, senior IT security analyst, and **Rich Leonardo**, IT disaster recovery manager.

"For NiSource, this change helps meet the evolving needs of our organization by enabling us to apply strong leadership focus to our IT service provider relationship, while also maintaining a strong focus on the security and integrity of our total computing environment," Sistovaris said.

"I am very pleased that Julie has agreed to bring her experience in IT, as well as her more recent service provider management expertise, to her new and important leadership role," Sistovaris said. "I am also pleased that Dick James will be leveraging his strong knowledge of our computing systems and infrastructure in his new role focused on NiSource IT security and compliance."

With the change, McElmurry's current direct reports will report to **Kevin Kirkham**, also a PMO lead in the Governance organization. Transitions in the Governance and IT organizations will occur over the next two weeks.

**BuySource, ERS and WorkBrain set to launch July 1 at NCS and Pipeline**  
***An important update from NiSource's Enterprise Transformation Team***

Posted: 06-22-2006 at 03:24 Eastern Time

BuySource, ERS and WorkBrain set to launch July 1 at NCS and Pipeline  
NiSource is in the final stage of the Wave 1 system implementations, and we are rapidly approaching the time when we will start using the new Time & Labor (WorkBrain), Travel & Expense (ERS) and Requisition to Disbursement (BuySource) systems.

The NiSource companies transitioning to the new systems beginning July 1, 2006, include:

- Columbia Gas Transmission
- Columbia Gulf Transmission
- Crossroads Pipeline
- Energy USA-TPC
- Millennium Pipeline
- NiSource Energy Technologies
- NiSource/Columbia Retail Services
- PEI Holdings, Inc.
- NiSource Corporate Services

The long-term benefits to the company will be numerous, as the new systems will significantly improve efficiency by bringing all of the NiSource companies onto common platforms. In addition, we anticipate the link between finance, procurement, and business operations to be greatly improved so that we can be more proactive in our support of key business decisions. In the near term, however, there will be some temporary disruption, as we shut down a variety of our legacy systems and transition to the new systems.

In preparation for *Go-Live*, we want to make employees of the affected companies aware of some key dates and important points regarding this change, and to describe some of the resources available to you during the transition. **[View the critical dates for the companies impacted by the July 1 Go-Live.](#)**

## **May 2006 Transformation Update II focuses on Supply Chain Management**

Posted: 06-01-2006 at 11:28 Eastern Time

July 1 is the "go live" date for transforming several key systems and processes in Finance and Accounting (F&A), Supply Chain Management (SCM) and Human Resources (HR) at certain NiSource companies. These changes will directly impact a majority of employees. Many employees have been signing up for the instructor-led and web-based training courses that are being conducted to help them learn how to use these new systems and processes.

For many employees within these functions and others at IBM, this has meant tireless months of planning and the integration of new processes and technologies. They know they have just 30 days before the Columbia distribution companies, NiSource Corporate Services, Columbia Gas Transmission, Columbia Gulf, Energy USA, TPC and Primary Energy see the results of their efforts -- and are affected by the F&A, SCM and HR transformations.

Earlier this month, the May 2006 Transformation Update I focused on the changes being made in F&A. The May 2006 Transformation Update II focuses specifically on BuySource, the new electronic procurement system being implemented in Supply Chain Management, and other key benefits that will be taking place. Within the next few weeks, a third Transformation Update will explain the upcoming changes in HR.

## **May 2006 Transformation Update focuses on Finance & Accounting Transformation**

Posted: 05-19-2006 at 03:00 Eastern Time

Over the next several months NiSource and IBM will be transforming several systems and processes in Finance and Accounting (F&A), Supply Chain Management (SCM) and Human Resources (HR). These changes will directly impact a majority of employees.

During the upcoming months, instructor-led and web-based training courses will be conducted to help employees learn how to use these new systems and processes.

Training invitations have been distributed via e-mail to those employees being impacted by the F&A and SCM changes. HR training invitations will also be distributed via e-mail to all employees at the end of May.

We understand that these courses will require time away from daily work activities. However, we strongly urge employee participation given that these courses will educate employees on how to conduct business and complete their daily work in our transformed work environment. Please encourage your employees to participate.

Throughout the next 30 days, we will be distributing several Transformation Updates that focus on the changes being made in F&A, SCM and HR. **The May 2006 Transformation Update I** is available on *MySource* and focuses specifically on the new systems and processes being implemented in the F&A area. We've outlined some of the key changes that will take place as well as the benefits.

## HR change agents educating managers about Manager Tools; training plans being set

Posted: 05-19-2006 at 02:30 Eastern Time

Newly appointed change agents are currently out talking with managers and supervisors across NiSource about one of the new human resources (HR) Manager Tools set to launch Aug. 1.

Change agents are delivering an ***A Day in the Life: Recruiting Solutions*** presentation as an introduction to what will stay the same and what will change in the job posting and bidding process.

HR Manager Tools training development is already underway, with *train the trainer* and *power user training* scheduled to take place the first three weeks in June. In addition, *user acceptance testing* is also scheduled to take place in June and will involve representatives from various business units to help ensure HR Manager Tools meet NiSource business requirements and performs as expected.

Managers, supervisors and employee training will be delivered through various means including:

- Instructor-led/classroom training
- Sametime sessions
- Self-paced materials online

The type and amount of training employees will receive will be recommended based upon their individual role (e.g., manager, individual contributor, HR consultant, recruiter, etc.), as well as the frequency of use of each HR Manager Tool. For example, individuals who recruit frequently will likely be recommended for instructor-led classroom training, whereas an individual who recruits once or twice a year may be recommended for a Sametime training session. These recommendations are being developed now and will be reviewed and validated during the next few weeks.

Classroom training will be conducted at major NiSource locations in Ohio, Indiana, Pennsylvania, Massachusetts, West Virginia and Virginia. In early June, employees who will need to take Manager Tools training will receive instructions on when and how to register in the Learning Management System (LMS) for their assigned level of training.

More details about the new tools will be available on *MySource* in the near future and users of the tools will receive training for each of the new Manager Tools applications as they are introduced.

Additional information can be found on the **BPO Community** on *MySource*.

Questions regarding the HR transformation can be submitted using **MySource feedback**.

## **Fact Sheet/Q&A**

April 26, 2006

### **Summary:**

- ☐ From May 3-19, NiSource will conduct a survey of **all employees** across the company.
- ☐ The survey is designed to:
  - Be simple to complete and administer (one page, only 14 questions);
  - Focus on the daily work environment that employees and teams experience;
  - Provide information that leaders and teams can use for follow-up planning;
  - Set a baseline for conducting future surveys and measuring improvement over time.
- ☐ Employees will be able to complete the survey **anonymously** online or via paper forms.
- ☐ An email link will be sent to all NiSource email addresses May 3.
- ☐ Paper survey packages will be mailed to supervisors at field locations the week of May 1.
- ☐ To provide focus for follow-up activities, employees are asked two demographics questions:
  - Do they supervise others?
  - What work unit are they a part of? (Note: Reports are not provided for groups fewer than 5 people.)
- ☐ Surveys should be completed online or postmarked to the third-party processor by May 19.
- ☐ Bob Skaggs and Executive Council will communicate results to all employees in June.
- ☐ Also in June, most managers will receive work unit-level results to share with their teams, along with a guide for suggested follow-up activities.

### **Q&A:**

#### **Why is NiSource conducting an all-employee survey?**

Actively engaged employees are a key to delivering business results. Understanding how employees view the work environment can help our leaders and teams take steps to become more engaged and effective, which is a goal in many of our Operating Plans and business models.

#### **How will the survey be administered?**

During the week of May 1, all NiSource employees with e-mail addresses will receive a message and link inviting them to complete the survey anonymously online. That same week, supervisors in field and operations locations will receive a paper survey kit for employees who do not have computer access. The survey kit will have a supply of paper surveys and instructions for distributing and collecting completed surveys (such as during a safety meeting or other team gathering). The kit will include a confidential return envelope for sending completed surveys to an outside PO Box. Completed surveys will be handled only by the third-party, not by NiSource employees. The online and paper surveys will include identical questions.

(more)

**Employee Survey Fact Sheet/Q&A**  
Page 2 of 2

**How long should it take to complete the survey?**

The survey includes only 14 questions, and should require only a few minutes to complete.

**Will employee responses be anonymous?**

Yes. Both the online and paper versions of the survey are anonymous. The online survey tool cannot identify who has completed the survey. Paper surveys will be returned to an outside PO box that has been established specifically for this activity. A third party contractor will retrieve the surveys, compile the data and shred all paper copies. Nobody from NiSource will handle completed paper surveys.

**Is it “mandatory” that people complete the survey?**

No, the survey is not mandatory, but we hope people will feel free to share their honest views so that we can establish a benchmark for future improvements.

**Should IBM or other contract employees complete the survey?**

No, the survey is designed only for NiSource employees.

**Why are we doing the survey now?**

The survey timing coordinates with a number of other initiatives taking place across NiSource this year, including Distribution Work Management/GIS and the upcoming Supply Chain, Finance & Accounting and Human Resources business transformations.

**Will the employee survey results be used to evaluate managers or teams?**

No. We realize many factors can influence or contribute to the survey results. We expect that managers and teams will want to consider the results for their area so they can identify possible ways to make improvements, but this information will not be used to evaluate the performance of any individuals or groups.

**Will senior management acknowledge the survey results?**

Follow-up actions are critically important for the success of this and future surveys. CEO Bob Skaggs and the NiSource Executive Council will carefully review the survey results and take the lead in communicating the results broadly for all employees via *MySource* and other means.

**What are the follow-up expectations for leaders after the survey is complete?**

Work unit results (in most cases down to the manager level) will be shared with leaders, who will be expected to share and discuss these results with their teams. The survey reports will come with a simple leadership guide for conducting individual and/or team follow-up activities. The guide will include suggestions for linking follow-up activities with existing meetings, projects or ongoing work.

**How will we track future improvements?**

This survey establishes a baseline for conducting annual employee surveys that will track our progress and improvements over time. An index of our annual employee survey results will be included as a key measure in NiSource's ongoing Corporate Balanced Scorecard.

**Who can I contact if I have questions or need assistance?**

Please contact Joanne Bronikowski in Organizational Development, (304) 357-2853.

###

## Administrative Services leadership transitions announced

Posted: 04-28-2006 at 03:00 Eastern Time

Several leadership transitions have been announced in the Administrative Services organization reporting to Senior Vice President **Violet Sistovaris**.

The changes, which are associated with NiSource's executive streamlining initiative, include:

**Gail Harowski**, vice president, Real Estate & Facilities Management, has elected to leave NiSource at end of May. Effective June 1, **Gary Pottorff**, vice president, Administration and Corporate Secretary, will assume responsibility for the following functions, reporting to Sistovaris:

- Real Estate
- Facilities Management
- Business Continuity Planning
- Security

Pottorff will continue to serve in his role as NiSource Corporate Secretary, with dotted-line reporting to **Peter Fazio** for this portion of his responsibilities. The functions of Records Management, Shareholder Services, and Aviation Services will continue to report to Pottorff.

Sistovaris also announced that **Sherry Gavito**, vice president of Governance, will be departing NiSource at the end of 2006. Gavito will continue in her role supporting and overseeing NiSource's governance of the business process outsourcing transformation with IBM. Gavito will continue in her current position throughout 2006, providing time for development and implementation of an effective transition.

Sistovaris also announced that **Tom McKain**, Administrative Services Special Projects, has announced that he will be leaving NiSource in August after 10 years of service to pursue other interests.

"I would like to acknowledge and thank Gail, Sherry and Tom for their significant contributions to NiSource," Sistovaris said. "The best wishes of their many colleagues go with each of them."

## HR Manager Tools and related applications on track for Aug. 1 launch

Posted: 04-19-2006 at 05:09 Eastern Time

Development of the new human resource (HR) Manager Tools and related applications is well underway and launch is set for Aug. 1. These applications will consolidate and standardize processes to improve delivery of certain HR services and reduce costs by implementing new technologies.

"Manager Tools will help us achieve our operating plan through cost and process management," explains Human Resources Vice President and HR Tower Lead **Joel Hoelzer**. "This transformation initiative will help us connect business processes and automate common administrative tasks to enable strategic management and efficient administration."

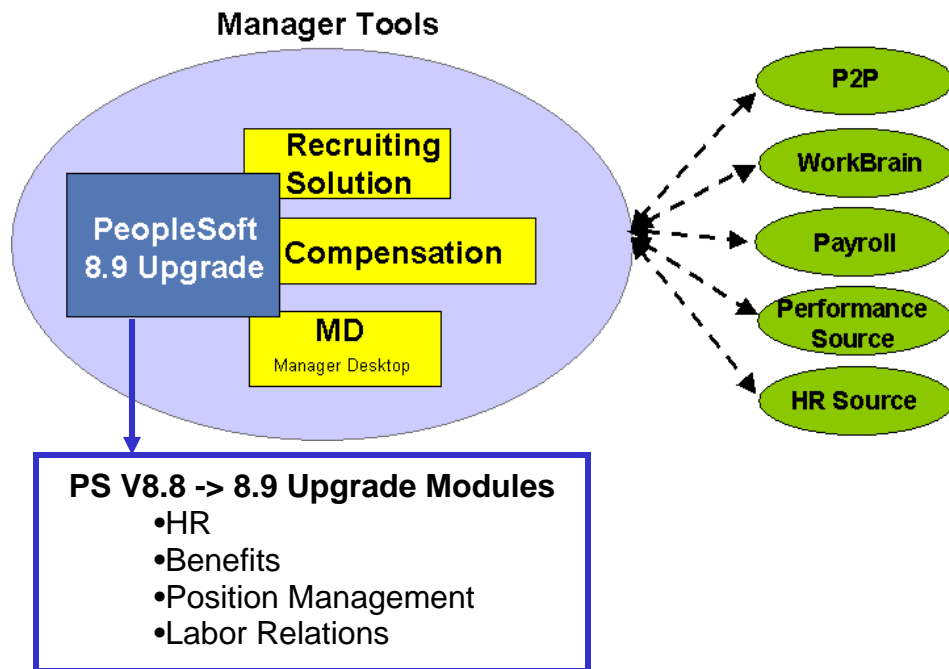
The Manager Tools transformation consists of a number of components (Click on the **Related Document** link in the right column to view an image of how the components fit together). A new **job posting/bidding system** called Recruiting Solution is currently being developed. A new **online compensation tool** will replace the current Lotus Notes database used by NiSource managers today. Additionally, a new **Manager Desktop** will provide managers with a number of online tools to help them with job data, employee transactions, salary-related tasks and a workflow to streamline these processes.

The transformation began with an **upgrade to PeopleSoft 8.9** to provide modifications and improvements to reports and interfaces for labor relations, benefits, position management, which will be used by the HR staff.

More details about the new tools will be available on MySource in the near future and users of the tools will receive training for each of the new Manager Tools applications as they are introduced.

Questions regarding the HR transformation can be submitted using **MySource feedback**.

## The Manager Tools (PeopleSoft 8.9) Transformation Program encompasses four major elements\*:



\* \*It also provides for the implementation of new interfaces to P2P, Workbrain, Payroll, Performance Source and HRSource applications. (The dotted lines represent two-way data delivery).

## Transformation Quick Facts:

### *Purpose of Governance:*

- Manage relationship between business and service provider
- Balance value realization and risk mitigation

### Value Realization

- Ensure delivery of savings
- Manage demand for IBM services
- Leverage IBM's capabilities
- Create optimization through standardization
- Institutionalize process improvements

### Risk Mitigation

- Meet contractual obligations
- Manage effectively
- Resolve issues rapidly
- Provide direction to IBM

### *Governance Guiding Principals:*

- Focus on results for all stakeholders, including business units, corporate functions, employees and customers
- Foster a fair, productive and collaborative relationship with IBM
- Maintain focus on service excellence
- Clearly articulate, monitor and report cost savings and service levels
- Maintain control through review and approval of key decisions and outcomes
- Encourage innovation and implementation on new and emerging technology and processes
- Empower and leverage IBM's service expertise

## Focus On: Achieving Cost Savings



## IBM Tools and Services

### Low-Cost Versus High-Cost Options

Each resource and all work managed by IBM has an associated cost. Employees can impact these costs by choosing the low-cost option when applicable.

The purpose of this guide is to communicate the actions that all employees can take to directly help NiSource manage spending and achieve significant cost savings.

	High-Cost Option	Low-Cost Option
<b>IT</b>	<ul style="list-style-type: none"> <li>• Use of laptop (\$68.05 per month)</li> <li>• Excess use of cell phones</li> <li>• Request and use of non-standard applications</li> <li>• Multiple communications devices (Blackberry, cell phone and pager)</li> </ul>	<ul style="list-style-type: none"> <li>• Use of desktop (\$38.80 per month)</li> <li>• Use of land line phones</li> <li>• Use of standard applications for ease of support</li> <li>• Use of ONE communications device</li> </ul>
<b>HR</b>	<ul style="list-style-type: none"> <li>• Contact HR Service Center via phone (Cost Associated)</li> </ul>	<ul style="list-style-type: none"> <li>• Access information and forms online via HRSource/MySource Portal (No charge)</li> </ul>
<b>F&amp;A</b>	<ul style="list-style-type: none"> <li>• Issuing a payroll check manually (\$4.06 per check)</li> </ul>	<ul style="list-style-type: none"> <li>• Issuing a payroll check via direct deposit (\$.39 per check)</li> </ul>
<b>Supply Chain</b>	<ul style="list-style-type: none"> <li>• Buyer-assisted purchases</li> <li>• Use of personal credit cards for company expenses</li> <li>• Travel agent assisted booking (\$35 fee air travel; \$15 fee car or hotel)</li> <li>• Utilizing only one supplier for goods and services when a competitive supplier market exists</li> </ul>	<ul style="list-style-type: none"> <li>• Electronic procurement and support services (Late 2006 or early 2007)</li> <li>• Use of company provided T&amp;E card (e.g. American Express)</li> <li>• Travelport Online Bookings (\$7 fee air travel; free for car or hotel)</li> <li>• Bidding goods and services among several suppliers when a competitive supplier market exists</li> </ul>
<b>M2C</b>	<ul style="list-style-type: none"> <li>• Payments made to lockbox by customers</li> <li>• Mailing paper bills to customers</li> </ul>	<ul style="list-style-type: none"> <li>• Encourage use of ZapCheck by customers</li> <li>• Encourage use of E-Bill by customers</li> </ul>
<b>CCC</b>	<ul style="list-style-type: none"> <li>• Encourage customers to call contact center</li> </ul>	<ul style="list-style-type: none"> <li>• Employees utilize and promote customer use of IVR and Web for NiSource gas and electric account inquiries</li> <li>• Employees effectively utilize systems (e.g. WMS) for order scheduling to reduce customer calls</li> <li>• Strong collaboration and coordination of business process changes that may impact customer call volumes</li> </ul>

### Update: Key Transition & Transformation Achievements and Upcoming Activities

ID Administration (Processing security access requests for IT systems and applications):

- Mid-March goal of eliminating backlog was met
- The access request process is being redesigned to ensure backlog does not reoccur
- Employee requests are now regularly being processed in five business days, with appropriate approvals

# Long-Term Sustainable Growth Strategy

- Pipeline Growth
- Commercial/Regulatory Initiatives
- Financial Management
- **Cost and Process Management**

## Transformation Goals

Consolidate, standardize and redesign support processes to improve services and reduce costs

Adopt best practice

Implement new and emerging technology

Re-deploy capital to achieve growth strategy

Achieve cost savings of \$35-40 million per year

*Our Operating Plan*

## Employees can significantly impact outsourcing cost savings

Posted: 04-07-2006 at 03:00 Eastern Time

The enterprise-wide outsourcing transformation is well underway. As we continue to partner with IBM to transform our key business functions, NiSource remains committed to the overall goals of the effort:

- Consolidate, standardize and redesign our support processes and improvements
- Adopt best practices
- Implement new and emerging technologies
- Re-deploy capital to achieve our growth strategies
- Achieve cost savings of \$35-\$40 million per year

As shown in the **Operating Plan Illustration** located in the **Related Documents** section of the article, attaining these transformational goals is a key component of NiSource's balanced plan to achieve long-term sustainable growth. This month's Transformation Update focuses on a goal that all employees can help us achieve: cost savings.

The tools and services employees utilize can directly influence our annual outsourcing cost savings. To help employees understand how their daily behaviors can influence our potential cost savings, a guide has been developed that explains how some IBM tools and services options are more costly than others. The guide, entitled "**IBM Tools and Services: Low-Cost Versus High-Cost Options**" is located in the **April 2006 Transformation Update**. This update can be accessed from the **Related Documents** section of this article.

Employees are encouraged to print the **April Transformation Update** and use the guide listed as a reference when selecting IBM tools and services. Selecting low-cost options when feasible will contribute to the overall cost savings of the outsourcing effort.

## Distribution Operations leadership team announces Organizational Changes

Posted: 03-31-2006 at 09:45 Eastern Time

The NiSource Distribution Operations leadership team is announcing changes to their respective organizations effective April 1, 2006. The changes are an extension of the new leadership structure announced on [Feb. 21](#) and recent changes at [Columbia Gas of Ohio](#). The new organization reflects the ongoing commitment to operational excellence and further defines the field, engineering, and support functions.

These announcements are aligned with the NiSource distribution operations [operating model](#) focusing on standardization of processes and procedures while providing central direction with local implementation.

Several functions are being realigned reflecting the new organization and consistent with transforming the distribution operations organization to one. The realignments include the following:

Functions reporting to **Shawn Patterson** vice president engineering include engineering, regulatory compliance, large projects and construction strategy, technical services, land and survey, CDC and BSG-NU GIS mapping, CDC fabrication & welding shop, CDC meter shop and system operations.

Direct reports to **Patterson** are:

- **Keith Dalton**, manager, engineering and construction services, BSG-NU.
- **Rob Mooney**, manager, engineering and construction services, CGV.
- **Mark Chepke**, manager engineering and construction services, CPA-CMD.
- **Brian Schenk**, manager, engineering, COH-CKY.
- **Jim Fiegle**, director, engineering, Indiana.
- **Charles Crews**, manager, technical services.
- **Steve Heatwole**, manager, large projects and construction strategy.
- **Kevin Swiger**, director, system operations.
- **Jim Roberts**, manager, regulatory compliance and training.

Functions reporting to **Peg Landini**, vice president support operations include the service planning and logistics operations for the CDC, and the scheduling, logistics & resource planning for BSG-NU companies, gas dispatching for Indiana, applications support, CDC operations planning, CDC new business, Indiana training center and COH resource planning team.

Direct reports to **Landini** are:

- **Ken Lockhart**, manager, CDC logistics center.
- **Nancy Parker**, manager, central operations, Indiana.
- **Marie Walker**, manager, operational services administration, BSG-NU.
- **Tom Adams**, manager, applications support
- **Mary Gilstrap**, manager, CDC new business.
- **Kris Emaus**, manager, training center, NIPSCO.
- **Steve Wilner**, project manager.
- **Bob Meekins**, manager, operations planning.
- **Jeff Huff**, project leader, support operations.
- **Chris Bedra**, project leader, COH resource planner team.

Functions reporting to **Dan Cote**, general manager, NiSource distribution operations east (Maine, Maryland, Massachusetts, New Hampshire, Pennsylvania and Virginia) include field operations, measurement and regulation, corrosion, leakage and construction services.

Direct reports to **Cote** are:

- **Mike Ernst**, operations center manager, Northwest-Tidewater Region, CGV.
- **Andy Stone**, operations center manager, Central Region, CGV.
- **Rick Burke**, operations center manager, PA Central, CPA.
- **Bob Kitchell**, operations center manager, PA North, CPA.
- **Jerry Kreiger**, operations center manager, PA South, CPA.
- **Ron Blymire**, operations center manager, PA East, CPA.
- **Doug Smallwood**, operations center manager, Maryland
- **John DaSilva**, operations center manager, Portsmouth, NH.
- **Paul Rogosienski**, operations center manager, Portland, ME.
- **Pam Bellino**, operations center manager, Springfield, MA.
- **Mike Laghetto**, operations center manager, Lawrence, MA.
- **Bill St. Cyr**, operations center manager, Brockton, MA.
- **David Cicoria**, manager, system operations, CGV.
- **Luther Black**, manager, measurement-regulation-corrosion, CPA-CMD.
- **Dana Argo**, manager, system operations, BSG-NU.
- **Donald Merriam**, manager, corrosion-leaks-facilities, BSG-NU.
- **TBD**, construction services, BSG, NU, CGV, CPA, CMD.

Functions reporting to **Tim Dehring**, general manager, NiSource distribution operations Indiana include gas and electric field operations, gas and electric system operations, NIPSCO maps and records, electric reliability, gas storage operations and gas operations for NIFL and Kokomo.

Direct reports to **Dehring** are:

- **John Graun**, director, operations west, NIPSCO.
- **Harry White**, director, operations east, NIPSCO.
- **Don Tokoly**, director, electric distribution operations, NIPSCO.
- **Nancy Hechlinski**, manager, maps & records, NIPSCO.
- **David Moore**, manager, electric reliability, NIPSCO.
- **Dennis Muntean**, manager, gas system operations, NIPSCO.
- **Terry Symon**, manager gas storage operations, NIPSCO.
- **David Mueller**, field manager, NIFL.
- **David Salmons**, field manager, Kokomo.

Functions reporting to **Dave Monte**, general manager, NiSource distribution operations for Ohio and Kentucky include field operations, measurement & regulation, corrosion, leakage and construction services.

Direct reports to **Monte** are:

- **Jeff Winterstein**, manager, construction services, COH-CKY.
- **Don Ayers**, manager, system operations, COH-CKY.
- **Mike Webb**, operations center manager, Ironton, OH and CKY.
- **Mike Schwieterman**, operations center manager, Toledo.
- **David Carter**, operations center manager, Springfield-Three Rivers.
- **Jerry Gray**, operations center manager, Heartland-Lake Erie.

- **Mike Tice**, operations center manager, North Pointe-Great Trail.
- **Steve Sylvester**, operations center manager, Muskingum Valley-Ohio Valley.
- **Frank Davis**, operations center manager, Columbus East-West.

Reporting to **Meg Brown**, vice president, work management include:

- **Richard Langley**, manager, performance improvement
- Work management implementation team.

"These adjustments to the organization are clearly tied to leading the transformation to one across the NiSource distribution operations and are consistent with our operating model," says **Harris Marple**, senior vice president. "As our transition continues and we gain clarity on the roles and responsibilities of the new organization, we must embrace both the opportunities being developed through the WM-GIS initiative and our changing business requirements to continue to provide safe and reliable gas and electric service," says Marple.

## **Distribution Operations is Transforming to One . . .** ***GIS team begins Data Model Design Workshops***

Posted: 03-10-2006 at 03:00 Eastern Time

Recently, **Tim Dehring**, general manager for Indiana, kicked off the first in a series of GIS Data Model Design Workshop in Merrillville. The objective of these workshops is to define the common data components required for a GIS system that will support design work across all NiSource Distribution Operations companies, and will be integrated with the future Work Management System. This first workshop focused on the data requirements for electric distribution operations, while additional workshops are planned over the next five weeks that will focus on the gas operations and landbase data requirements. Defining these consensus data models is a required step leading to data conversion activities that will begin in the second quarter of 2006.

### **What is GIS?**

GIS stands for Geographic Information System, and this effort is part of NiSource Distribution Operations' WM/GIS ***Transformation to One*** initiative. The GIS team is charged with identifying, designing and implementing consistent processes and tools for managing and utilizing the location component of NiSource Distribution Operations information. This new GIS solution will build upon the capabilities of the current NIPSCO GIS project and the mapping systems in the other distribution companies, providing enhanced features for designing, updating and accessing detailed facility/asset data based on its specific location.

### **Engage Employees**

As this project progresses, we will continue to reach out to employees across Distribution Operations and all of NiSource-to ensure the best overall WM/GIS solutions are developed. These GIS Data Model will draw on the knowledge and experiences of a select group of employees. Participants have been invited from all of the distribution companies to represent their area of expertise. The participants at the electric workshop alone had collectively over 700 years of company experience.

The **core team** leading this effort includes:

**Tom Adams, Steve Espe, Julie Gerhart, Ben Gilman, Terry Iffland, Bob Roach, Kevin Swiger, Sandy Thacker.** The core team is also working with our strategic partners from IBM and Miner and Miner.

### **Electric Workshop Participants:**

**Rich Belzowski, Tim Bersett, Chris Cook, Jill Gehrig, Ron Gang, Nancy Hechlinski, Mike Kovach, Joe Pardek, Dan Piekarski, Bob Roach, Pam Scheeringa, Jack Swims, Chuck Vamos, Jerry Wegner, Tom Wittenberger, Dianne Buche, Stanley Krzanowsky**

### **Gas Workshop Participants:**

**Robert Allen, Tonya Anderson, Dana Argo, Pete Beko, Tim Bickford, Beth Caldwell, Kevin Cline, Jim Cole, Ed Collins, James Cooper, Brett Fearnley, Julie Gerhart, Jason Haner, Valerie Hengstler, Nancy Hechlinski, Dennis Heck, Terry Iffland, Lee Jordan, Mike Kozlowski, Mike Mertes, Dave Muzzillo, Brian Powell, Steve Saffrit, Luke Selking, Kathy Silver, John Tanger, Joe Woloch, Charlie Zambito**

### **Landbase Workshop Participants:**

**Melanie Blood, Deana Borovich, John Carr, Brett Fearnley, Eric Fletcher, Jill Gehrig, Ben Gilman, Vonda Griffin, Lafayette Jordan, Timothy Kizer, Jason Lietz, James P. Miller, Dave Muzzillo, John Nerden, Nancy Parker, Mark Pasyk, Jeffrey Perz, Daniel Piekarski, William Reynolds, Pamela Scheeringa, Luke Selking, Brian Stage, Sandy Thacker, Nelson White**

## Transformation Quick Facts:

### *Role of the Governance Team*

#### **Tower/Business Leader:**

- Interface with IBM for NiSource Business Units
- Monitor IBM's service & performance
- Manage and resolve issues
- Manage employee satisfaction with IBM
- Manage demand for service

#### **Contract & Compliance:**

- Define current and future scope of contract
- Manage contract changes
- Oversee compliance with regulatory, legal and audit requirements
- Manage dispute resolution process

#### **Enterprise**

##### **Transformation:**

- Communicate transition & transformation information
- Design and facilitate training for new tools and processes
- Ensure appropriate change management plans are in place

##### **Financial Management:**

- Review invoices to ensure accuracy
- Track demand for and consumption of IBM services
- Ensure we meet financial targets

##### **Project and Program Management:**

- Provide oversight on major projects
- Monitor IBM's performance
- Manage request for services process

##### **Service Quality and Performance:**

- Manage cross functional issues
- Implement service performance metrics
- Monitor overall service performance of IBM
- Develop and manage standard service performance methodology

## Focus On:

# New transformation rollout schedule developed

An updated schedule is in place for introducing new business support tools and technology enhancements across the NiSource business units.

In February, NiSource and IBM agreed to reschedule the launch of new Finance & Accounting and BuySource procure-to-pay applications (originally scheduled April 1). The change was made to provide for a smoother implementation of the tools and a better experience for end users.

"With this new schedule, we have a stronger level of assurance that the implementation of these new tools and processes will meet the needs of NiSource, its employees and customers," Violet Sistovaris, Senior Vice President of Administrative Services, said. "This schedule also takes into consideration that there are significant training and change management components to each of these initiatives. This new schedule also moves the HR Manager Tools implementation to Aug. 1 to take into consideration the time and resource demands these changes will place on our managers and employees."

One thing that has not changed is the ultimate goal of NiSource's business transformation. "The purpose of NiSource's business transformation remains to implement new and emerging technologies, achieve cost savings, and deliver value for NiSource, our employees and our customers," Sistovaris added.

Here is the updated schedule for the key NiSource business transformation initiatives:

<i>New Tools/Processes by Business Unit</i>	<i>New "Go-Live" Date</i>	<i>Original Date</i>
Introduction of new <i>Finance &amp; Accounting and BuySource</i> procure-to-pay applications at <b>Pipeline and Corporate Services</b> .	July 1, 2006	April 1, 2006
Introduction of new <i>Human Resources Manager</i> Tools and related applications at <b>All NiSource Companies</b> .	August 1, 2006	July 1, 2006
Introduction of new <i>Finance &amp; Accounting and BuySource</i> procure-to-pay applications at <b>NIPSCO Gas and Electric Distribution and Bay State Gas/Northern Utilities</b> .	January 1, 2007	January 1, 2007
Introduction of new <i>Finance &amp; Accounting and BuySource</i> procure-to-pay applications at <b>Columbia Gas distribution companies</b> .	July 1, 2007	July 1, 2006

Additional information about training and change management support for each of these initiatives will be available soon. It is important to note that the schedule for F&A and BuySource has not impacted the work being done by the Work Management Team.

### Update: Key Transition & Transformation Achievements and Upcoming Activities

- **Travel policy rollout (Jan-Feb 06)**
- **Supply Chain Management *Emptoris Sourcing Portfolio* launched (Feb 06)**
- ***Travelport*, the new online travel reservation tool launched (March 06)**
- **New IT access review procedures for systems, applications & data (March 06)**

## New transformation rollout schedule developed

Posted: 03-09-2006 at 02:51 Eastern Time

An updated schedule is in place for introducing new business support tools and technology enhancements across the NiSource business units.

In February, NiSource and IBM agreed to reschedule the launch of new Finance & Accounting and BuySource procure-to-pay applications (originally scheduled April 1). The change was made to provide for a smoother implementation of the tools and a better experience for end users.

"With this new schedule, we have a stronger level of assurance that the implementation of these new tools and processes will meet the needs of NiSource, its employees and customers," Senior Vice President of Administrative Services **Violet Sistovaris** says. "This schedule also takes into consideration that there are significant training and change management components to each of these initiatives. This new schedule also moves the HR Manager Tools implementation to Aug. 1 to take into consideration the time and resource demands these changes will place on our managers and employees."

One thing that has not changed is the ultimate goal of NiSource's business transformation. "The purpose of NiSource's business transformation remains to implement new and emerging technologies, achieve cost savings, and deliver value for NiSource, our employees and our customers," Sistovaris adds.

Here is the updated schedule for the key NiSource business transformation initiatives:

New Tools/Processes by Business Unit	New "Go-Live" Date	Original Date
Introduction of new <i>Finance &amp; Accounting</i> and <i>BuySource</i> procure-to-pay applications at <b>Pipeline and Corporate Services</b> .	07/01/2006	04/01/2006
Introduction of new <i>Human Resources Manager Tools</i> and related applications at <b>All NiSource Companies</b> .	08/01/2006	07/01/2006
Introduction of new <i>Finance &amp; Accounting</i> and <i>BuySource</i> procure-to-pay applications at <b>NIPSCO Gas and Electronic Distribution and Bay State Gas/Northern Utilities</b> .	01/01/2007	01/01/2007
Introduction of new <i>Finance &amp; Accounting</i> and <i>BuySource</i> procure-to-pay applications at <b>Columbia Gas distribution companies</b> .	07/01/2007	07/01/2006

Additional information about training and change management support for each of these initiatives will be available soon. It is important to note that the schedule for F&A and BuySource has not impacted the work being done by the Work Management Team.

## Travelport goes live

Posted: 03-02-2006 at 05:00 Eastern Time

NiSource has launched Travelport, the new online travel reservation tool. This milestone signifies an important accomplishment because it is one of the first steps in the standardization and streamlining of the company's operations and reporting capabilities and is an enabling component of our *Transformation to One*.

For NiSource to realize the necessary cost savings, *leaders and managers have committed to complying with the new policy, and will be looking for employees to do the same*. NiSource travelers and travel arrangers should begin using the new tool immediately; [login instructions](#) are available on the **NiSource Travel Desk**.

Travelport provides NiSource with the best combination of service and savings, and will support the updated Travel Policy by:

- Providing the technology to enable the leveraging of spend across all travel suppliers which will drive projected savings of \$850,000 annually.
- Driving hotel savings through the easy identification of the 31 preferred hotels in the 13 most frequently traveled cities
- Improving access to negotiated rates with preferred airlines: Delta, United, USAir

The new Travelport tool is both user-friendly and cost effective, thus saving NiSource both time and money. "The greatest benefit of the Travelport tool," says **Carol Fox**, travel category executive, "is that employees will **increase the savings opportunities with each reservation booked online.**"

**These savings include:**

- Online Bookings -- \$7 (price could drop to \$4 with 90% adoption) for air travel; FREE for car or hotel bookings.
- Phone Agent -- Up to \$35 total for agent assisted booking for air travel; \$15 for car or hotel bookings.

NiSource employees are expected to use negotiated preferred suppliers to the fullest extent possible. Although the preferred suppliers (air, hotel, car rental) will be easily identifiable through the Travelport tool, there will also be times when it will be easier to simply call Enterprise or the hotel directly. Employees are encouraged to use their best judgment in determining reasonable cost if preferred supplier hotels are sold out or when traveling outside one of the 13 most frequently traveled cities.

### How to get help

As with any system implementation, there will be some challenges in the early days of using the [Travelport](#) system - particularly as we continue to ensure that all negotiated NiSource rates are loaded accurately. An updated list of FAQ's, as well as Quick Reference Guides for both [Travelers](#) and [Travel Arrangers](#), are posted on the *MySource* [Travel Desk](#).

If you cannot find answers to your questions, please contact [traveladmin@nisource.com](mailto:traveladmin@nisource.com).

If you are unable to login to the Travelport system, absolutely must book your travel through a telephone agent, have navigation or system functionality questions, or are experiencing other *technical difficulties*, please contact **Travelport Customer Service** at **1-800-320 - 2158**.

## **Leadership Summit focuses on execution excellence, delivering business results**

Posted: 03-01-2006 at 13:01 Eastern Time

NiSource Leadership Council members gathered in Merrillville this week to confirm NiSource's business direction and to drive execution of the company's 2006 Operating Plans.

CEO **Bob Skaggs** kicked-off the meeting by reinforcing NiSource's continued commitment to its four-part platform for long-term, sustainable growth:

- Expansion and commercial growth in the pipeline and storage business;
- Commercial and Regulatory Initiatives;
- Financial Management, and
- Process and Expense Management.

Skaggs shared details of his Performance Management Worksheet for 2006 and reviewed the Balanced Scorecard that NiSource's senior leadership team will use to drive overall performance and track results on key objectives throughout the year.

Also at the meeting, NiSource business unit leaders discussed key initiatives designed to achieve specific financial or operating targets for each of their areas.

"We have developed a framework for setting clear, straightforward performance targets, and then delivering on those expectations," Skaggs said. "As we proceed through the year, we will be aggressively managing performance and providing regular updates to our external and internal stakeholders."

Skaggs also updated the group on the outcomes of several corporate actions launched in December designed to reduce costs as a means of contributing to NiSource's earnings outlook (see related article).

"Our charge as the NiSource leadership team is to deliver on our commitments to shareholders, customers and employees," Skaggs said. "That means focusing on execution, reinforcing our Transformation to One, driving performance management, and communicating with clarity and transparency."

"We have validated that we have the right plans, capabilities and commitment to take on this effort," Skaggs added. "Now, we need to bring home the results."

## Next ethics training module for targeted audience

Posted: 02-22-2006 at 02:47 Eastern Time

The newest business ethics module, ***Sarbanes Oxley (SOX): Certifications and Section 404 Controls***, will be introduced to specific group of employees in early March 2006.

The SOX module is designed to raise awareness about corporate governance issues. It identifies items management must certify and the penalties SOX applies to different employees. It also provides an overview of the requirements for internal controls that SOX applies to companies, the steps of the most widely used internal controls framework in the U.S. and ways to test the effectiveness of an internal controls framework.

**The only employees who will receive this module are managers, directors, officers, and SOX process owners and control testers.** These employees will be sent a link to the module. The module can also be accessed using the *MySource* home page by clicking on **Business Ethics**. Click on Ethics Electronic Training under the blue bar titled **Business Ethics Electronic Training**. Login using your six-digit employee ID number and the generic password of "nisource1." Then select the ***Sarbanes Oxley: Certifications and Section 404 Controls*** module.

The module will take approximately 30-45 minutes to complete. Employees with questions about the training should contact **Nancy Wells** at (219) 647-4231.

## Distribution Operations leadership realignment announced

Posted: 02-21-2006 at 13:28 Eastern Time

**Harris Marple**, senior vice president of Distribution Operations, today announced a realignment of the Distribution Operations leadership structure to support realization of the **Distribution Operating Model** (click on link under **Related Documents** in the right column to view) and implementation of the Work Management/GIS technology and process transformation across all the NiSource distribution companies.

The changes also are aligned with NiSource's ongoing executive consolidation program and other corporate actions designed to position the company to deliver on its 2006 operating plans and establish a platform for long-term, sustainable growth.

"The goal of this effort, first and foremost, is to support execution of our operating plans and drive business results," Marple says. "To achieve that level of excellence, we are committed to our operating model in which we **focus** on the basics, **standardize** processes and procedures, **execute** extraordinarily well, **engage** the workforce, and provide **central direction** and **local implementation**. This realignment represents the beginning of a process that will continue to evolve as we execute our business plans and implement our operating model."

The new distribution leadership structure, effective March 1, includes:

- **Meg Brown, vice president of Support Operations**, transitions to a full-time role as vice president leading the implementation of **Work Management and GIS**.
- **Peg Landini, general manager for Virginia**, becomes **vice president of Support Operations**, located in Columbus.
- **Shawn Patterson, general manager for Pennsylvania and Maryland**, becomes **vice president of Engineering**, located in Columbus.
- **Dan Cote, general manager for Bay State/Northern Utilities**, assumes the expanded role of **general manager for New England, Pennsylvania, Maryland and Virginia**, located in Pittsburgh.
- **Dave Monte, vice president, Technical Operations**, becomes **general manager for Ohio and Kentucky**.
- **Tim Dehring, general manager for Indiana Operations**, continues in his current position.

In related changes:

- **Mark Wyckoff, general manager for Ohio and Kentucky**, transitions to a targeted corporate initiative that's charged with developing new alternatives for NiSource's **Whiting Clean Energy facility**.
- **Reg Carter**, vice president, **New Business Processes**, is retiring effective March 31.

"I have thoroughly enjoyed my role as general manager for Ohio and Kentucky," Wyckoff says. "I am especially grateful to have worked with and learned from such a talented team of energized leaders."

"The people I've worked with have been tremendous and I'm proud of what's been accomplished," Carter said. "I'm confident Distribution Operations is on the right track."

*Transforming to One* and Work Management are vital to the future of our company and will take us to the next level. There'll be changes, as you would expect to see with any major initiatives. However, when you envision the future, we'll be leading the industry in how we

deliver natural gas and electricity. That's got to be good for everybody, both employees and customers."

With Carter's retirement, the New Business function will report to Support Operations.

"On behalf of the entire NiSource team, I want to thank both Mark and Reg for their many outstanding contributions to the Distribution Operations group," Marple says. "They have been instrumental in setting the foundation for us to *Transform to One*."

All new reporting relationships will be effective March 1, or earlier as determined within individual work groups. As these leadership changes are implemented, any resulting changes in reporting relationships will be discussed with managers and other direct reports.

"Our realigned leadership team will indeed deliver," Marple says. "I have the utmost respect for and confidence in these very talented individuals. Their united commitment to the operating model, coupled with the unique skills and experience they each bring to the table, will successfully guide us through the challenging and exciting times that lay ahead."

## Hoover named Enterprise Transformation director

Posted: 02-16-2006 at 12:59 Eastern Time

**Angel Hoover** has been named director of Enterprise Transformation, a role in which she will lead efforts to coordinate and integrate change management activities across NiSource's business transformation initiatives.

"As we move forward with a wide range of business transformation activities, effective and integrated change management support will be vital to our success," **Violet Sistovaris**, senior vice president of NiSource Administrative Services, says. "I am delighted Angel has agreed to coordinate these efforts for us. She will be working closely with leadership counterparts at IBM, as well as with change management teams across NiSource, to help provide support for our leaders and employees as we roll out new business tools and processes."

Hoover has been a key member of the Enterprise Transformation team since the creation of the group last year. Since joining NiSource in 2003, she has served in a variety of roles related to change management, including work in communications, organizational development, distribution operations and human resources. She has a master's degree in Industrial and Labor Relations from the University of Wisconsin at Madison, and worked as a manager in consulting with Accenture Inc. before joining NiSource.

## Transformation Update -- Issues Management and Resolution Process

Posted: 02-15-2006 at 11:01 Eastern Time

As we continue to transform our business, we are committed to providing updates on key achievements and upcoming transformation activities. We will also be providing information on a variety of new processes and tools that we will be implementing to support our organization.

One of the new communications tools we have developed is a one-page Transformation Update. This month's update focuses on the **Issues Management and Resolution Process**.

As is the case with any major change, we know that some employees will experience issues or concerns as a result of the transition and transformation of business support activities. To help resolve these concerns as effectively and efficiently as possible, NiSource and IBM have jointly established an Issues Management and Resolution Process. Please see the Transformation Update - February 2006 document for detailed information on this newly established process. This document can be accessed from the **Related Documents** link in the right column.

This process provides employees with a clear path for gaining resolution to their issues and concerns regarding outsourced services.

## Transformation Quick Facts:

### Our Transformation Goals:

- Consolidate, standardize and redesign support processes to improve services & reduce costs
- Adopt best practices
- Implement new and emerging technologies
- Achieve cost savings
- Re-deploy capital to achieve growth strategy

### Our IBM Deal:

- 10-year agreement
- \$395 million net operating and capital savings over 10 years
- \$35-\$40 million savings annually

### Functions Involved:

All or portions of:

- Human Resources
- Finance and Accounting
- Supply Chain
- Customer Contact Centers
- Meter to Cash
- Sales Centers
- Information Technology

### Process to Deliver Results:

- Contractual obligations to maintain or improve service quality
- Contractual obligations to meet performance standards
- Joint governance processes for contract changes, compliance and requests for new service
- Partnership on Issues Management/Resolution Process

### All Employees Can Help:

- Support rollout and use of new processes/tools
- Participate in training as appropriate
- Use designated contact methods in contact brochure
- Escalate issues or concerns to direct supervisor when issue has not been resolved

## Focus On:

## Issues Management and Resolution Process

### Where do I go for help?

As is the case with any major change, we know that some employees will experience issues or concerns as we transform our business support functions.

To help resolve these concerns as effectively as possible, NiSource has established an **Issues Management and Resolution Process** (outlined below).

Listed below are the steps employees should follow to escalate issues or concerns:

#### Step 1:

- Employees should report his/her issues or concerns to the appropriate business area, using the designated contact method (phone number, e-mail or web address) listed in the **Contact Information for Employee Related Services brochure**. The brochure is located on the MySource homepage under the "Quick Links-Helpful Resources" section. The brochure can also be found by entering "Contact Information for Employee Related Services" in your search function at the top of the MySource home page.

**Please Note:** Turn-around time for issue resolution will vary depending on the issue or concern being addressed.

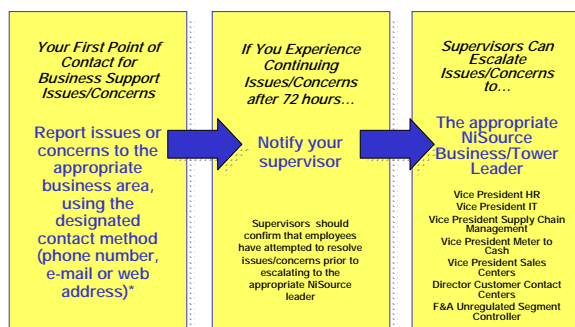
#### Step 2:

- If an employee does not receive a response within 72 hours acknowledging that the issue/concern has been or is in the process of being resolved, he/she should then report his/her issue or concern to his/her direct supervisor.
- The supervisor must confirm that the employee has completed **Step 1** of the process and has not received a solution. The supervisor should then determine if the issue or concern should be escalated. If a supervisor determines that the issue or concern should be escalated, the supervisor should proceed to **Step 3**.

#### Step 3:

- Supervisors should escalate the issue or concern to the appropriate NiSource Business/Tower Leader (leaders are listed on page 3 of the Contact Information for Employee Related Services brochure).
- Once an issue or concern is escalated to the NiSource Business/Tower leader, that leader will work with their service area to develop a solution.

### Where do I go for help?



\*See Contact Information for Employee Related Services Brochure for designated contact methods. If employees are unable to get issues/concerns resolved they should be escalated to the appropriate Ni Business/Tower leader

## Update: Key Transition & Transformation Achievements and Upcoming Activities

- **HR Service Center established (Oct 05)**
- **IT Help Desk transitioned to IBM (Dec 05)**
- **Payroll activities transitioned to IBM (Jan 06)**
- **Performance management tool rollout (Jan-Feb 06)**
- **Travel policy and tools rollout (Jan-Feb 06)**
- **BuySource and Time & Labor rollout at Pipeline, NCS (TBD)**

## NiSource reports 2005 financial results and provides 2006 earnings guidance

Posted: 01-31-2006 at 08:30 Eastern Time

NiSource Inc. today (Jan. 31, 2006) announced net operating earnings (non-GAAP) of \$375.4 million, or \$1.38 per share, for the 12 months ended Dec. 31, 2005, compared with \$405.8 million, or \$1.54 per share, for 2004 (all per-share amounts are basic).

The 2005 results exceeded the revised net operating earnings guidance of \$1.32 to \$1.37 per share, issued in November 2005. Net operating earnings are a non-GAAP financial measure that NiSource defines as income from continuing operations determined in accordance with Generally Accepted Accounting Principles (GAAP) adjusted for certain items.

The decrease in net operating earnings of \$30.4 million for 2005 compared with 2004 was the result of higher depreciation expense, primarily from the 2004 expiration of the prior regulatory stipulation for Columbia Gas of Ohio (COH); decreased usage by natural gas utility customers, primarily due to higher gas prices; incremental costs associated with the Midwest Independent System Operator (MISO) in NiSource's Indiana electric market; and lower net revenues in the gas transmission and storage business due primarily to the 2004 renegotiation of contracts with NiSource pipelines' major customers, net of remarketing activities. These impacts were partially offset by strong cost management and improved results from Whiting Clean Energy.

NiSource President and Chief Executive Officer **Robert C. Skaggs, Jr.**, noted that 2005 was expected to be a base year from which the company would grow off a focused, four-point business platform.

"Despite the challenges of record high natural gas prices, the impact of hurricanes and a dynamic energy market environment, the NiSource employee team put in place the four key elements of our platform for growth: expansion and commercial growth in the pipeline and storage business; regulatory and commercial initiatives; management of the balance sheet; and expense management," Skaggs said.

"We made significant progress on pipeline and storage growth projects, with the Hardy Storage project in West Virginia receiving its Federal Energy Regulatory Commission (FERC) certificate to move forward, Millennium Pipeline signing Consolidated Edison and KeySpan as anchor customers, and Columbia Gas Transmission's Eastern Market Expansion moving forward toward a 2009 in service date based on definitive agreements with four East Coast customers," he noted. "In addition, our Bay State Gas Company subsidiary received approval of a rate increase in Massachusetts, resulting in \$11.1 million in annual revenue increases.

"We completed major refinancings that will yield approximately \$43 million in annual interest expense savings beginning in 2006, as well as a new, five-year \$1.25 billion revolving credit agreement that reduced short-term borrowing rates by 27.5 basis points," Skaggs added.

"In addition, we began implementing sweeping process and cost management initiatives through transformation of NiSource's back-office processes and systems in conjunction with the outsourcing contract with IBM, and we initiated a corporate streamlining effort that will include reducing office locations, realigning executive compensation and reducing executive positions."

Based on this progress in 2005 and the successful launch of NiSource's four-point business platform, Skaggs announced that NiSource expects 2006 net operating earnings in the range of \$1.45 to \$1.55 per share.

This earnings guidance is based on typical assumptions such as normal weather, customer growth offsetting usage declines, and customary increases in costs such as depreciation, taxes and employee and administrative expenses. Other factors built into NiSource's business plan include: the successful completion of key regulatory and commercial initiatives; achieving expected savings from the outsourcing to IBM; deferral of MISO costs beginning Aug. 1; and modest deterioration of results from Whiting Clean Energy, which benefited from a strong market during the summer 2005 period.

A chart that was released with NiSource's press release and that is available on the [NiSource Web site](#) provides additional detail on the assumptions related to 2006 guidance.

NiSource's 2006 guidance for income from continuing operations (GAAP) is in the range of \$1.42 to \$1.52 basic earnings per share. Transition costs associated with the outsourcing initiative with IBM represent the 3 cents per share difference between net operating earnings and income from continuing operations.

"We have a solid plan to manage through the challenges we expect in 2006 and remain focused on our platform for growth. We have some aggressive objectives on the revenue side, and we also have a strong track record of managing our expenses," Skaggs said.

"We look forward to keeping investors and all interested stakeholders updated on our progress."

The full earnings release, including a discussion of operating earnings results by segment of NiSource's business, is available on the [NiSource Web site](#).

## Pipeline and NCS reps participate in Finance, Supply Chain transformation overview

Posted: 01-26-2006 at 13:26 Eastern Time

More than 50 leaders from Pipeline, NiSource Corporate Services (NCS), IBM and a variety of other NiSource functions gathered in Columbus last week to discuss changes in the Supply Chain and Finance & Accounting (F&A) areas as part of NiSource's ***Transforming to One*** effort.

Starting in the second quarter, employees at Pipeline and NCS will be among the first in the corporation to use new processes and tools as part of the F&A and Supply chain transformation:

- New common platforms for:
  - Financial Systems
  - O&M Budgeting
  - Data Warehouse
  - Time & Attendance
  - Expense Reporting
- A single procurement system, called BuySource, to source materials and services giving the company better specifications and controls

The Columbus meeting provided an opportunity for representatives from Pipeline and NCS to meet with transformation leaders to discuss details of the upcoming changes, how the new processes, tools and systems will work together, and how the changes would be introduced to employees. The session (called a Business Requirements Review/System Requirements Review) is part of IBM's standard process for transformation implementations.

"This meeting helped improve my knowledge of the scope of the changes and the plans for rolling out new tools and processes in our organization," Pipeline Field Services Manager **Sheree Parks-Downey** says. "I also think the discussion provided some good input for the business transformation teams on things they should consider as part of their strategies."

"I agree that this meeting was extremely helpful for us in ensuring broader awareness and insight into our plans," Vice President of Governance **Sherry Gavito**, says. "Beyond that direct input, I was also extremely pleased to see such strong commitment from our business unit partners to support the successful implementation of this effort. We all know change is difficult, and there will be some bumps along the road. But by working together, we can achieve the value of these new tools and processes for our employees and customers with as little disruption as possible."

Watch for additional updates as the ***Transforming to One*** effort moves forward, including details about specific training and rollout schedules across NiSource. For more information about these transformation efforts, please submit your questions using [MySource feedback](#).

## Employees to receive Performance Source training

Posted: 01-09-2006 at 10:30 Eastern Time

Training for **Performance Source**, the new online performance management and development tool, is about to begin.

"We're asking for employees to support this new performance management tool and engage in the necessary training," says Senior Vice President of Human Resources **Rob Campbell**. "This process will help us achieve our corporate goals while also advancing employees' professional goals and development."

Two types of Performance Source courses will be offered:

1. **Performance Source for Leaders:** a half-day hands-on workshop intended for individuals who have leadership responsibilities within the performance management process
2. **Performance Source Sametime Sessions:** a 2 ½ hour interactive session intended for employees in a non-supervisory role who will use Performance Source tool to support their ongoing performance management process

During training, employees will learn more about how the new electronic tool will assist in:

- Aligning goals across the organization
- Setting expectations
- Development through the use of competencies (the behaviors, personal attributes, knowledge and skills that correlate to success in a role or position)
- Monitoring progress and successes

Over the next week, employees who will be using Performance Source will receive e-mail notification asking them to register for the appropriate Performance Source training. The e-mail will explain which course an individual needs to participate in based upon their role in the ongoing performance management process.

The e-mail will provide employees with instructions on how to view available training sessions (Sametime sessions or instructor-led course offerings by location), how to select and register for the session of their preference, and who to contact if they have questions on the registration process.

**Performance Source Training for Leaders** will take place Jan. 18 - Feb. 3. **Performance Source Sametime Sessions** will be conducted Jan. 30 - Feb. 17. Employees will be able to begin using the tool as soon as they have completed their training.

"Performance Source provides NiSource with a new level of performance management capability," notes Campbell. "This new performance management tool directly supports our goal to engage our employees and deliver on our operating plan commitments."

Questions regarding Performance Source, NiSource's transformation, its relationship with IBM, or any other topics can be submitted using [MySource feedback](#).

## **Reminder: Use new number when contacting payroll**

Posted: 01-04-2006 at 14:38 Eastern Time

On Jan. 1, 2006 IBM assumed responsibility for payroll processing for NiSource. As part of this transition the number employees should use for payroll related inquiries has changed.

The new phone number to use in contacting payroll is: **(888) 257-2588**.

The email address will be for payroll issues will remain [payroll@nisource.com](mailto:payroll@nisource.com)

If you have any questions about NiSource's finance and accounting (F&A) transformation, our relationship with IBM, or any other topics, please feel free to use the [MySource feedback](#) link (located on the **MySource** home page) to contact the F&A transformation team.

## **New payroll contact number now live**

Posted: 01-04-2006 at 06:35 Eastern Time

On Jan. 1, 2006 IBM assumed responsibility for payroll processing for NiSource. As part of this transition the number employees should use for payroll related inquiries has changed.

The new phone number to use in contacting payroll is: **1-888-257-2588**.

The e-mail address for payroll issues remains [payroll@nisource.com](mailto:payroll@nisource.com)

Questions about NiSource's F&A transformation, our relationship with IBM, or any other topics, can be sent through the [MySource feedback](#) link (located on the **MySource** home page) to contact the Finance and Accounting Transformation team.

## NiSource's transformation -- Many accomplishments in 2005; busy season heading into 2006

*A message from Violet Sistovaris*

Posted: 01-03-2006 at 13:30 Eastern Time

Our accomplishments continue to build as we are Transforming to One. When we first announced our transformation, we explained that the efforts to achieve our transition would be largely in 2005 and, to a lesser extent, in 2006. Not surprisingly, December was a very busy month in wrapping up many of our initiatives for 2005 and hitting many significant milestones. This note will provide an update on many of those initiatives as well as provide some thoughts on communications about transformation efforts in the future.

First, I want to thank all of you who have contributed to our transformation efforts thus far. I hope everyone had a happy holiday season. Many of you participated in the transformation initiatives outlined below right up until Dec. 31 - we appreciate your hard work. For your reference, we have developed a brochure outlining many of the key contact points related to our transformation. This brochure is posted on *MySource* at the following link: [Transformation brochure](#). You can also find it by searching for **Employee Related Services** on *MySource*.

Key milestones include the following items in several of our transformation towers. More communications, including more *MySource* articles, will follow about each one.

- In the **IT tower**, IBM assumed responsibility for the operation of the Technology Help Desk, along with other IT activities, beginning Dec. 15. The transition of the Help Desk to IBM should be seamless to employees who have come to rely on this valuable resource as a "life line" for responding to computer-related problems 24 hours a day. The Technology Help Desk's phone number will remain the same, **1-877-357-3911**. Charleston employees should begin using the toll-free number as well, instead of the extension 3911, as this will be phased out over the next few months.
- In the **HR tower**, a new web-based performance management and employee development tool, called Performance Source, will be rolled out to support the 2006 performance management process. This tool will streamline and enhance the current performance and development planning processes. Performance Source will assist employees in:
  - Aligning goals across the organization
  - Setting expectations
  - Developing competencies, and
  - Proactively managing progress and recognizing successes.

Performance Source is currently being piloted with the Executive Council, with rollout to the full organization beginning in mid-January. Training and rollout will continue through February 2006.

- In the **Supply Chain tower**, a new travel policy is being rolled out effective January 1, 2006. This new policy will help us to achieve significant cost savings on travel expenses in addition to helping us standardize processes across NiSource for more effective reporting. In addition, this new policy will enable our preparation for the Finance and Accounting transformation systems and processes that will begin rolling out next spring, including a new expense reporting system. You can access the Travel Desk from the top of the *MySource* home page to find out more over the coming weeks.
- In the **Finance and Accounting tower**, IBM assumes responsibility for payroll activities as of Jan. 1. Please use the following new number for payroll inquiries: **1-888-257-2588**. E-mail questions will still be received at [payroll@nisource.com](mailto:payroll@nisource.com). For

most of you this will not change any processes, but simply will be a new point of contact to IBM's delivery center.

- In the **Retail Sales Center tower**, the Portsmouth, N.H., Retail Sales Center activities will be consolidated into the Smithfield, Pa., Contact Center, which is now operated for NiSource by IBM and Vertex. There, Retail Services-dedicated sales representatives and resources began to serve customers with the ability to add additional resources to handle seasonal demand peaks starting Dec. 19, 2005. The Smithfield Center is expected to be completely operational for Retail Services by Jan. 4, 2006.

There are many other initiatives under way in all towers and many teams working towards completing upcoming key milestones. Watch MySource to find out more over the coming weeks. In addition, in 2006 we will be looking at additional ways to improve our communications so that you receive valuable information about our transformation early, often, and by multiple means in order to make our transitions most effective.

Thank you all for your hard work and cooperation this year and, again, happy holidays to you and your families. I look forward to next year.

Finally, please remember that questions regarding NiSource's transformation, our relationship with IBM, the activities and policies described above, or any other topics, can be submitted using [MySource feedback](#).

**Remember: New payroll contact number beginning Jan. 1**

Posted: 12-30-2005 at 01:24 Eastern Time

On Jan. 1, 2006 IBM will assume responsibility for payroll processing for NiSource. As part of this transition the number employees should use for payroll related inquiries will change.

The new phone number to use in contacting payroll is: **(888) 257-2588**.

The email address will be for payroll issues will remain [payroll@nisource.com](mailto:payroll@nisource.com)

This new number will not be available until January 1, until that time, please continue to use the current process.

Further communications will be forthcoming. If you have any questions about NiSource's finance and accounting (F&A) transformation, our relationship with IBM, or any other topics, please feel free to use the [MySource feedback](#) link (located on the **MySource** home page) to contact the F&A transformation team.

## Finance retained organization and new roles announced

Posted: 12-23-2005 at 05:37 Eastern Time

The NiSource Finance organization recently announced several changes to better support the NiSource business units and facilitate the transformation process with IBM.

As the Finance and Accounting area goes through the transition and transformation processes, Vice President and Controller **Jeff Grossman** and his senior staff retain responsibility for financial reporting, budgeting and accounting, and have added responsibilities for financial planning. Reporting to Grossman are:

- **Ron Plantz**, assistant controller; MitchHershberger, segment controller, Unregulated Businesses;
- **Bob Kriner**, segment controller, Energy Distribution East;
- **Linda Miller**, segment controller, Northern Indiana Energy;
- **Susan Taylor**, segment controller, Corporate Services;
- **Karen Townsend**, segment controller, Pipeline;
- **Tim Bucci**, director, Corporate Insurance; and
- **Rick Grzywana**, director, Accounting Research and Financial Reporting.
- **Greg Bane**, director, Financial Planning, Pipeline, also now reports to Grossman.
- In addition, **Kurt Nelson**, manager, Financial Analysis, now reports to Plantz.

Grossman noted that Townsend is leading the F&A transformation effort for NiSource. Kriner is overseeing the transition for Energy Distribution East, and Miller is overseeing the transition for Northern Indiana Energy. The next steps in the process are the transition of Payroll to IBM on Jan. 1, followed by the implementation of several new financial systems beginning in April and rolling out first to the Corporate Services and Pipeline segments.

In other areas of the Finance organization, NiSource Vice President and Treasurer **Dave Vajda** has added the responsibilities of a Finance and Strategy team, consisting of four directors leading the strategic planning processes for the Corporate, and the capital allocation process for Distribution (Operations and Regulated Revenue), Pipeline and Generation areas. **Edwin Chandrasekar**, currently director of Planning and Capital Allocation in the corporate Finance department, has accepted the role of director of Corporate Finance and Strategy. The other three directors' positions will be filled soon. Also reporting to Vajda are **Anthony Zerges**, director of Risk, in addition to Vajda's current direct reports: **Vince Rea**, director, Corporate Finance; **Tracy Ngo**, director, Risk Management; and **Steve Gallas**, Benefit Plan Investment Manager.

Recently **Bill O'Malley**, vice president of Finance for the Northern Indiana Energy companies, retired. O'Malley joined NIPSCO in 1978 and served in various leadership positions throughout his career. His responsibilities have been redistributed, with new reporting relationships including:

- **Cathy Hodges**, director, Rates and Structure, reports to **Mark Maassel**, president of NIPSCO.
- **Kristi Figg**, manager, Financial Planning, reports to Miller.
- **Ernie Hasselbring**, manager, Business and Support Services, reports to **Jerry Weeden**, vice president, Generation.
- **Nancy Hechlinski**, manager, Maps and Records, reports to **Tim Dehring**, general manager, NIPSCO.

**Kathy Shroyer**, vice president of Finance for the Columbia distribution companies and Bay State/Northern Utilities, also plans to retire at the end of February 2006. Shroyer joined

Columbia Gas of Ohio in 1978 and has served in a wide range of leadership roles throughout her career. In preparation for this transition, effective Jan. 1, new reporting relationships for Kathy's current staff will include:

- **Kelly Humrichouse**, director, Regulatory Accounting, will report to **Kathleen O'Leary**, senior vice president, Energy Distribution Regulated Revenue.
- **Bill Gresham**, manager, Demand Forecasting, will report to Humrichouse.
- **Brian Noel**, manager, Financial Analysis for CKY, CGV, Bay State and Northern Utilities, along with the rest of the Financial Planning and Analysis team for the Columbia LDCs, Bay State and Northern Utilities, will report to Kriner.

"I would like to take this opportunity to thank Bill and Kathy for their many years of hard work and dedication to the NiSource and Columbia companies," says **Mike O'Donnell**, NiSource executive vice president and chief financial officer. "Please join me in wishing both of them all the best in their retirements. Please also join me in supporting all these leaders and their staffs in their new roles."

Organizational charts will be updated on **MySource** after Jan. 1.

## Finance and accounting transition and transformation update

Posted: 12-22-2005 at 02:54 Eastern Time

Beginning in April of 2006, NiSource will implement several new financial systems to improve our financial processes. These systems include:

- PeopleSoft General Ledger and Accounts Receivable
- PeopleSoft EPM (Enterprise Performance Management, Data Warehouse)
- Khalix Planning & Budgeting
- WorkBrain for Time & Labor
- GERS (Global Expense Reporting System) for Travel & Entertainment
- Enterprise Buyer Profession (Accounts Payable)

The initiatives listed above have a number of benefits for NiSource:

- Standard processes, leveraged across segments
- Improved financial controls
- Reduced costs
- Increased accuracy
- Consistency in methods and processes
- Richer analytical capability
- Improved transparency
- Simplified reporting
- Enhanced tracking of status and approvals
- Improved efficiency and speed of financial processes

### Schedule and Roll out

These enhancements will take place in stages, or waves to accommodate the various business units across the NiSource enterprise:

1. **Wave 1 - 4/1/06:** Corporate, Pipeline (excluding Granite State)
2. **Wave 2 - 7/1/06:** Columbia Distribution, Kokomo, NIFL
3. **Wave 3 - 1/1/07:** Bay State, NIPSCO, Granite State

### Training

Naturally, employees will require training in these new systems. Training will be provided in a "menu" approach. This means that there will be multiple opportunities and even multiple media (classroom, web-based, etc.) available to provide as much flexibility as possible to the business units in managing training time.

Internal NiSource subject matter experts will be trained by IBM to conduct the required training for those impacted by the system implementation. Once training is complete, these internal training experts will act as resources for questions on daily operations.

If you have any questions about NiSource's F&A transformation, our relationship with IBM, or any other topics, please feel free to use the [MySource feedback](#) link (located on the **MySource** home page) to contact the Finance and Accounting Transformation team. If you would like a presentation for your organization, please contact [Karen Townsend](#).

## Retail Services to accelerate transformation of sales center

Posted: 12-21-2005 at 14:28 Eastern Time

Growth is the name of the game for Retail Services, and with that objective comes a commitment to focus on improving processes and performance levels. The Retail Services Team has an aggressive five-year plan, with the goal of doubling its business.

One corporate-wide initiative that will provide Retail Services with the means to achieve its goals is the outsourcing agreement with IBM. Starting Dec. 19, some Retail Services calls previously handled by the Portsmouth, NH, Sales Center are now being handled by the Smithfield, Pa., contact center. The full transition from Portsmouth to Smithfield is expected to take place on Jan. 4, 2006.

"The outsourcing initiative will allow the Retail Services team to accelerate growth by improving the way in which we enroll and service customers in retail energy products and services," says **Scott MacDonald**, vice president, NiSource Retail Services. "Since a significant portion of our profitability is driven by the performance in NiSource's sales center and customer contact centers, further efforts to standardize, consolidate and make service quality enhancements to these activities will pay off in the short term and create a stronger platform for growth."

The solution for Retail Services will be to consolidate the Portsmouth, N.H., Sales Center into the Smithfield, Pa., contact center, which is now operated for NiSource by IBM and Vertex. There, Retail Services-dedicated sales representatives and resources will serve customers, with the ability to add additional resources to handle seasonal demand peaks.

"Leveraging the Smithfield center management, support staff and infrastructure, and enhancing employees' efforts with large-scale technology and performance management should make a significant improvement in the sales center operation," adds MacDonald. "We're certainly excited about the positive impact this will have on the Retail Services business."

Questions regarding NiSource's transformation, our relationship with IBM, or any other topics can be submitted using [MySource feedback](#).

## **Payroll contact number set to change**

Posted: 12-20-2005 at 05:49 Eastern Time

On Jan. 1, 2006 IBM will assume responsibility for payroll processing for NiSource. As part of this transition the number employees should use for payroll related inquiries will change.

The new phone number to use in contacting payroll is: **(888) 257-2588**.

The e-mail address will be for payroll issues will remain [payroll@nisource.com](mailto:payroll@nisource.com) This new number will not be available until Jan. 1, until that time, please continue to use the current process.

Further communications will be forthcoming. If you have any questions about NiSource's finance and accounting (F&A) transformation, our relationship with IBM, or any other topics, please feel free to use the [MySource feedback](#) link (located on the **MySource** home page) to contact the F&A transformation team.

## **2005 Performance management process wrapping up** ***New electronic performance tool set to launch in 2006***

Posted: 12-15-2005 at 14:06 Eastern Time

As employees are closing out their 2005 performance management cycle, progress is being made toward the rollout of **Performance Source**, the new online performance management and development tool.

Last week, leaders from across the organization viewed a demo of the new tool at the Leadership Summit in Merrillville.

A group of human resources and organizational development employees are currently testing Performance Source and the Executive Council will pilot the tool during the week of Dec. 19. Beginning in January, employees throughout the organization will receive Performance Source training and will have the opportunity to use the new tool as they begin the 2006 performance management cycle.

Performance Source is one of the many benefits of the Transforming to One initiative, and it directly supports NiSource leadership's commitment to engage employees and to deliver on the operating plan commitments.

The new electronic tool will assist employees in aligning goals across the organization; setting expectations; development through the use of competencies (the behaviors, personal attributes, knowledge and skills that correlate to success in a role or position); and monitoring progress and successes.

[Check out this preview of the Performance Source performance management worksheet \(PMW\).](#)

The creation of the Development Focus Worksheet (DFW), while familiar to many, may be new to some employees. Supporting individual development will be an important element of the 2006 performance management process. [Check out this Performance Source DFW preview.](#)

There are many exciting features of Performance Source that you will learn more about through the upcoming training planned for January-February 2006. Watch MySource for more details about the rollout and training opportunities for Performance Source.

A [Frequently Asked Questions document](#) is available on **MySource**. Also, remember that additional questions regarding NiSource's transformation, our relationship with IBM, or any other topics, can be submitted using [MySource](#) feedback.

## NiSource's new travel policy coming in January

Posted: 12-15-2005 at 13:45 Eastern Time

As part of our continual efforts to optimize NiSource's financial performance and consistent with our cost management strategy, it is essential that our travel-related costs are managed effectively. Effective in January, we are implementing a new travel policy for NiSource to leverage and focus the Company's travel spend to obtain the best travel discounts possible.

"As a result of this new policy, we will realize cost savings and achieve improved standardization across NiSource for more effective reporting," says **Carol Fox**, NiSource's supply chain category executive for travel, "In addition, this new policy will enable our preparation for the Finance and Accounting transformation systems and processes that will begin rolling out next spring, including a new expense reporting system."

More details will be communicated once the travel policy is finalized and negotiations with vendors are complete; however, this article and the [NiSource Travel Policy FAQ](#) will provide an overview of the new policy and transition requirements.

Highlights of the new policy include:

- The new travel policy is effective Jan. 1, 2006 with transition over the following months. As an example of the transition, during the month of January you will receive information about the new travel agency procedures, but most other preferred suppliers will become effective as of Jan. 1, 2006.
- The new policy will apply to all of NiSource. In addition, Supply Chain Management will continue to honor agreements with all contract employees and will work with our contractors during negotiations to gain acceptance of our policy. Bargaining unit employees should continue to use their normal sources to answer questions regarding bargaining unit contracts and travel policy provisions.
- Required use of the American Express Corporate Card by all exempt travelers. Subject to your manager's approval of your business travel needs, you can get an American Express card at any time by sending an e-mail to [creditcardprogram@nisource.com](mailto:creditcardprogram@nisource.com) from your NiSource e-mail address with the following information: name, e-mail address, company, business unit, business phone number, and your manager. Upon receipt of the request, we will send details for on-line application with American Express. Please allow two to three weeks from the time of your request to process your application, credit check, etc.
- All exempt employees who travel are required to have a NiSource American Express credit card and must use it to purchase all travel expenses (where accepted). Of course, there will be a few instances when a supplier does not accept the Amex card and a personal card or cash will need to be used instead. Non-American Express card expenses will be reimbursed by direct deposit.

Other specific elements of the travel policy include:

- The policy covers meals (employee and customer/client meals), travel agencies, lodging, and transportation (air travel, rental car, personal car, and public transportation).
- Travelers must use the negotiated preferred suppliers to the fullest extent possible.
- Air travel is authorized when the driving time is more than four hours or 200 miles one way.
- A special reservation website is now available for our use on Southwest Airlines for NiSource travelers at the following link: [Southwest Airlines Program for NiSource](#)

- Employees are required to rent vehicles when the total reimbursement (using the current IRS per mile rate) for the use of a personal car exceeds the car rental rate. (We will provide further detail when negotiations are completed).
- Single evening meals are reimbursable up to \$30 (food, beverage, tip).
- Customer / Client Business meal expenses are reimbursable up to \$75 per person (food, beverage, tip).
- Team dinners (i.e. team recognition / meetings) are reimbursable up to \$75 per person (food, beverage, tip).

Look for more details and the formal travel policy on the **MySource [Travel Desk](#)** over the coming weeks. You can access the Travel Desk from the top of the **MySource** home page. We will have many additional communications about the policy once the various negotiations are complete. In the meantime, if you have any questions about the policy, its applicability, or approval requirements, please feel free to post questions to this link for **[MySource feedback](#)** located on the **MySource** home page under the *Inside this Community* tab in the center of the upper blue band.

Additionally, please remember that questions regarding NiSource's transformation, our relationship with IBM, or any other topics, can also be submitted using **[MySource feedback](#)**.

## A letter from Bob Skaggs to NiSource employees

Posted: 12-06-2005 at 14:59 Eastern Time

Dear NiSource Team:

To keep you informed, I want to provide an update on our balanced plan to achieve long-term, sustainable growth for NiSource. In particular, I want to share key items discussed at the recent NiSource Board of Directors meeting and the Leadership Council Summit in Merrillville this week.

### Continued Progress

First, we remain on track with the key elements of our long-term growth strategy. Through your continued strong efforts, we are making notable progress across each dimension of our four-part platform. Some recent examples:

- We are advancing new **Pipeline Growth** initiatives, such as the Hardy Storage Project, which recently received Federal approvals;
- We are delivering on new **Regulatory and Commercial Programs**, such as the tremendous effort that resulted in our recently completed Bay State Gas rate case;
- We are enabling ongoing **Cost and Process Management** improvements, such as the transformational outsourcing, our Work Management/GIS effort and important age and condition work;
- And, through aggressive **Financial and Cash Management**, we are reducing interest costs, maintaining our credit ratings and identifying new ways to finance future growth.

It is worth noting that you are accomplishing these goals despite the impacts of hurricanes, increased volatility in natural gas pricing and supply markets, business support transitions, and the ongoing challenge of sustaining day-to-day operations. For these accomplishments and your continued strong efforts, I again say thank you.

### Solid Initiatives on the Horizon

Looking ahead, we have a host of strong 2006 - and longer-term - business initiatives on tap for each of our major business units and support groups. As you may know, we are using a common business planning process across all of NiSource this year. This standardized Operating Plan approach, which is now linked with our Financial Plan process, is creating tight focus, alignment and accountability across the company. As each business area finalizes its Operating Plan-Financial Plan, leaders across NiSource will be rolling out specific 2006 goals and targets within their teams. I also will be sharing with you the overall NiSource Operating-Financial Plan, so you can see how your efforts are linked to our larger goals.

### Corporate Streamlining/Cost Management

The Operating-Financial Plan process also has confirmed for us that 2006 will be a challenging year. As you know, several business issues recently forced us to materially reduce our 2005 earnings outlook. Those issues will be continuing, and have the potential to affect our 2006 earnings outlook as well.

Given these immediate financial challenges, I have asked the Board of Directors and our management team to consider several actions designed to streamline our corporate structure and reduce support costs. Here are the specific actions that we're launching:

- **Develop a Plan to Reduce Office Locations.** By mid-January, we will develop a plan to consolidate and dispose of several office locations. Specifically, we are looking at options for the NIPSCO office building in Merrillville, the Marble Cliff building in

Columbus, and the Fair Lakes offices in Northern Virginia. I want to emphasize that this change is not designed to reduce jobs. Our goal is to reduce our costs associated with maintaining and operating office facilities. We have notified employees at these locations, and will be keeping them informed as alternative arrangements are developed.

- **Achieve Travel Savings.** Starting January 1, we will implement policy changes designed to deliver 6 percent of savings off the 2006 baseline. Some of the changes will come from improved travel purchasing, while others will come from new travel guidelines (such as a \$30 limit on dinner costs). Watch for more information soon about the travel policy changes.
- **Reduce Corporate Aviation Costs.** We have launched an effort to find ways to reduce corporate aviation costs, including how we handle both passenger and patrol activity. We will have the results of this study by the end of January.
- **Reduce Corporate Support Budgets.** I will be working with key leaders across NiSource to find additional ways to tighten our corporate support services and executive budgets for 2006. Decisions will be made by Feb. 1.
- **Revise Executive Compensation Program.** Subject to Board approval, we also will be taking steps to revise our executive compensation program, including aligning executive pay at the 50 percent level of our utility peer group, plus elimination of the long-term incentive compensation program that can cost as much as \$14 million per year. These changes will create a program that reflects our financial realities and is consistent with our overall compensation philosophy.
- **Streamline Executive Ranks.** By mid-February, we will be reducing our executive ranks at NiSource by as much as 20 percent of the roughly 100 top executives. In part, this will come through anticipated attrition and consolidation of vacant positions. It will also come through purposeful decisions regarding how we can best create a more streamlined and efficient leadership team.

Depending on your location and role in the organization, you will be hearing more about each of these initiatives. Our goal is to complete these actions over the next 60 to 90 days, so that we can quickly achieve the related financial savings, establish our corporate structure and allow our teams to focus on their business initiatives.

Finally, as 2005 draws to a close, I want to restate the key messages I have shared with Wall Street, the Board of Directors and our executives: NiSource is on the right track. You are addressing our core financial realities. You are establishing realistic business plans and targets. And you are doing what it takes to deliver results.

To you and your loved ones, all the best wishes this holiday season. For 2006 and beyond, I offer my continued support and my deep appreciation for your daily commitment and contributions.

Sincerely,

**Bob**

## New performance management and employee development tool set to launch in 2006

Posted: 11-29-2005 at 05:00 Eastern Time

The Human Resources (HR) Tower is preparing for the launch of **Performance Source**, a web-based performance management and employee development tool. The basic performance management process will remain the same. However, instead of filling out a paper-based form, employees will input their information into an electronic environment.

Performance Source will support the 2006 performance management process by streamlining and enhancing the current performance and development planning processes.

"We have done wonderful work across the organization in developing operating plans for 2006," notes NiSource President and CEO **Bob Skaggs**. "However, having a plan isn't enough. We need to execute the plan and monitor our progress in meeting our commitments. Performance management is a critical component of our execution approach."

According to HR Tower Lead **Joel Hoelzer**, The new electronic tool will assist employees in:

1. Aligning goals across the organization
2. Setting expectations
3. Development through the use of competencies
4. Monitoring progress and successes

"The new performance management tool is one of the many benefits of our **Transforming to One** initiative," says Skaggs. "And it directly supports our commitment to engage our employees and to deliver on our operating plan commitments."

The new performance management tool will rollout to NiSource leadership in December, and beginning in January, employees across the organization will have the opportunity to use the new tool.

### Complete 2005 Performance Management

In preparation for the coming year, employees are encouraged to complete the 2005 performance management worksheets by Jan. 31, 2006.

Watch **MySource** for future updates about Performance Source.

Please remember that questions regarding NiSource's transformation, our relationship with IBM, or any other topics, can be submitted using [MySource feedback](#).

## **November Update on NiSource's transformation -- The first 100 days and beyond**

*A message from Violet Sistovaris*

Posted: 11-18-2005 at 10:45 Eastern Time

We recently crossed the 100-day mark for NiSource's transformation initiative and our relationship with IBM.

Our NiSource transformation leadership team met in late October to look back on those first days - both the major strategic milestones and the more tactical day-to-day activities. The IBM leadership team also held a similar session in early November. These sessions were intended as a checkpoint to objectively evaluate the progress in our relationship to-date and to identify opportunities to improve our efficiency and effectiveness in working together and serving our NiSource customers. In addition to renewing their commitment to the success of the relationship, both teams identified a series of opportunities for improvement that are being translated into near-term actions.

Looking back, we have made considerable progress in kicking-off our transformation since July 1. Some key milestones include the Human Resource (HR) and Finance and Accounting (F&A) transition events on Oct. 31 and Nov. 1, respectively along with associated applications support in both F&A and HR for PeopleSoft. In addition to the major milestones you've heard from us about, there have been many other critical activities happening every week that move us toward future milestones. Some examples over the past month include:

- The Work Management tower conducted multiple workshops over a three week period to develop an activity "blueprint". This "Blueprint" identifies, defines and standardizes activities that accomplish the management of work across Distribution operations. These sessions brought together over 100 key leaders and influencers from across Distribution Operations to define a common "activity model" for the future.
- A three-day design workshop in the F&A tower to finalize the technical design for the new tools in F&A that we will begin rolling out next year.
- Continued rollout of contract governance and relationship management processes with our partners at IBM.

Looking forward, we have many more exciting activities over the next two months. You can expect to hear more about all of these items soon.

- The HR tower will be working with Leadership Council to begin the rollout of a new performance management and employee development tool in December.
- The Meter to Cash tower will complete the initial phase of transitioning billing exception activities to IBM.
- Key milestones in the IT tower over the coming months, include:
  - The IT support for some applications will be migrated to IBM locations, including aspects of CIS, DIS, General Accounting, MAPPS, Time Reporting, Work Management, and many others.
  - The Technology Help Desk will be transitioned to IBM's delivery center in Toronto.

Note that the following changes to the original transformation schedules have been made:

- The launch of some PeopleSoft-related tools in the HR tower has been moved from the end of 2005 to spring/summer 2006 in order to best incorporate an upgrade to PeopleSoft 8.9 allowing for additional enhancements.

- Due to the high impact of high gas commodity prices on our customers during the winter heating season and the resulting anticipated high customer call volumes, we have held off on transitioning some of our Lexington, Ky., customer contact center activities to IBM/Vertex in Smithfield until March 31, 2006.

I want to emphasize that both NiSource and IBM believe that these adjustments are in the best interest of NiSource, our employees and our customers. I will keep you posted on any other adjustments to the schedules.

I also want to extend my thanks to everyone involved in the transformation for their commitment and considerable effort thus far.

Please remember that questions regarding NiSource's transformation, our relationship with IBM, or any other topics, can be submitted using [MySource feedback](#).

## **A message from Bob Skaggs regarding 2005 third quarter earnings**

Posted: 11-11-2005 at 11:45 Eastern Time

NiSource Team:

As you probably have seen or heard, last week we reported lower-than-expected third quarter earnings, and revised our 2005 earnings expectations from our original estimate of \$1.47 to \$1.53 to a range of \$1.32 to \$1.37 per share.

Since the trigger for a payout under the 2005 NiSource Incentive Compensation Plan is \$1.50 per share, it is now very unlikely we will achieve the minimum threshold required for an incentive compensation payout.

I know this is disappointing news. Not just because of the financial impacts, but also because you and your fellow employees have worked so hard this year to make this company a success - day in and day out. Even now, I know people across NiSource are focusing on critical priorities, such as preparing our operating systems for winter, developing 2006 operating plans, and implementing business process transitions and transformations to help us Transform to One.

I want to extend a sincere note of thanks to each and every one of you. You give this company the strength we need to work through our challenges. And rest assured, NiSource has a strong and balanced business plan that will enable us to realize long-term, sustainable growth.

As I told financial analysts last week, we are in the midst of some unprecedented market dynamics that are creating choppy business conditions that could extend into 2006. Some of the primary issues we are facing include lower customer natural gas usage, continued losses from our Whiting Clean Energy plant in Indiana, and unrecoverable costs associated with the Midwest Independent System Operator (MISO) in NiSource's Indiana electric market. For more information about our challenges, I encourage you to review our third-quarter earnings announcement and our 10-Q filing, which contain straightforward assessments of our financial situation.

I want to stress that our business fundamentals are solid, our key business initiatives sound, and our operating plans challenging, but achievable. As I stated to analysts last week, I'm committed to straight-forward and transparent communications, both internally and externally, and in sharing our reality and progress toward achieving our goals.

I value your contribution to the NiSource team and look forward to working with you as we address our challenges, capitalize on opportunities and grow this company together.

Thank you,  
**Bob Skaggs**

## **NiSource reports third-quarter results and revises 2005 earnings guidance**

Posted: 11-04-2005 at 08:06 Eastern Time

[NiSource today announced net operating earnings](#), a non-GAAP financial measure which NiSource defines as income from continuing operations determined in accordance with Generally Accepted Accounting Principles (GAAP) adjusted for certain items, were \$16.5 million, or 6 cents per share (all per-share amounts are basic), for the three months ended Sept. 30, 2005, compared with \$26.9 million, or 10 cents per share, for the comparable period a year earlier.

For the nine months ended Sept. 30, 2005, NiSource announced net operating earnings (non-GAAP) were \$251.4 million, or 93 cents per share, compared with \$268.5 million, or \$1.03 per share, for the 2004 period.

The company has faced several issues throughout 2005 that are expected to continue for the remainder of the year and could extend into 2006. These issues include: lower customer natural gas usage; continued losses from Whiting Clean Energy; and unrecoverable costs associated with the Midwest Independent System Operator (MISO) in NiSource's Indiana electric market.

These factors are the primary drivers of NiSource's decision to revise its 2005 earnings expectations from our original estimate of \$1.47 to \$1.53 to a range of \$1.32 to \$1.37 per share in net operating earnings. See Schedule 3 for a description of the various business drivers that have led us to revise our guidance. Schedule 3 also reconciles our guidance for net operating earnings (non-GAAP) to our revised guidance for income from continuing operations per share (GAAP) of 88 cents to 93 cents per share. Primary impacts to the projected change in GAAP earnings per share are restructuring charges related to the outsourcing initiative and charges related to the refinancing of Columbia Energy Group (CEG) debt.

### **Net operating earnings (non-GAAP)**

NiSource is providing net operating earnings and operating earnings, which are both non-GAAP measures, because management believes these measures better represent the fundamental earnings strength of the company. Operating earnings are operating income determined in accordance with GAAP adjusted for certain items. NiSource uses net operating earnings and operating earnings internally for budgeting and reporting to the board of directors. Adjustments reflected in these measures are primarily weather, restructuring charges associated with the outsourcing contract with IBM, and impairment charges. See Schedule 1 and Schedule 2 of this news release for the reconciliations of net operating earnings and operating earnings, respectively, to GAAP.

The decrease in net operating earnings for the quarter compared with the third quarter of 2004 was the result of higher depreciation, primarily from the expiration of the 1999 regulatory stipulation for Columbia Gas of Ohio (COH); lower net revenues in the gas transmission and storage business due primarily to the renegotiation of contracts in 2004 with NiSource pipelines' major customers, net of remarketing activities; and incremental costs associated with MISO. These impacts were partially offset by improved results from Whiting Clean Energy.

The decrease in the nine-month net operating earnings versus 2004 was the result of lower net revenues in the gas transmission and storage business due primarily to the renegotiation of contracts with major pipeline customers, net of remarketing activities; incremental MISO

costs; and higher depreciation resulting primarily from the expiration of the 1999 COH regulatory stipulation, partially offset by improved results from Whiting Clean Energy.

### **Income (Loss) from Continuing Operations (GAAP)**

NiSource reported a loss from continuing operations for the three months ended Sept. 30, 2005, of \$5.8 million, or 2 cents per share (all per-share amounts are basic), compared with income from continuing operations of \$21.7 million, or 8 cents per share, for the same period in 2004.

Net loss for the third quarter of 2005 was \$6.8 million, or 3 cents per share, compared with net income of \$28.8 million, or 11 cents per share, during the third quarter of 2004. Operating income for the third quarter was \$93.2 million in 2005, compared with \$128.1 million in 2004.

For the nine months ended Sept. 30, 2005, NiSource reported income from continuing operations of \$210.8 million, or 78 cents per share, compared with \$274.0 million, or \$1.04 per share, for the same period of 2004. Net income for the first nine months of 2005 was \$238.5 million, or 88 cents per share, compared with \$276.9 million, or \$1.06 per share, for the same period a year ago.

Earnings per share were diluted by 3 cents for the nine-month period in 2005 primarily due to the issuance during the fourth quarter of 2004 of 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's Stock Appreciation Income Linked Securities (SAILSm).

### **Progress on business plan**

"While 2005 was expected to be a challenging year, it is notable that during the third quarter we stayed on track with our strategy to build a platform for long-term, sustainable growth," said NiSource President and Chief Executive Officer **Robert C. Skaggs, Jr.**

"We remain focused on four key elements: expansion and commercial growth in our pipeline and storage business; regulatory and commercial initiatives; management of our balance sheet; and expense management."

Specific highlights include:

- The Federal Energy Regulatory Commission (FERC) this week issued a certificate authorizing Hardy Storage Company, LLC, to develop an underground natural gas storage field to help meet increased demand for natural gas in the eastern United States. Hardy Storage also has received an acceptable environmental assessment from FERC. The project is being developed by NiSource subsidiary Columbia Gas Transmission and a subsidiary of Piedmont Natural Gas.
- Columbia Gas Transmission conducted two successful open seasons for the expansion of its system in central and southeastern Virginia and in the mid-Atlantic and Northeastern markets.
- Bay State Gas Company remains on track to receive an order on its \$22.2 million base rate case by the end of November.
- NiSource finalized the terms of the planned refinancing of its balance sheet, which is expected to result in interest expense savings of more than \$43 million annually beginning in 2006.
- NiSource continued to move forward with the implementation of its contract to outsource many of its back-office processes to IBM. The 10-year agreement is expected to provide approximately \$395 million, after costs to achieve, in operating and capital cost savings across NiSource's 15 primary operating subsidiaries.

Meanwhile, results for NiSource's Whiting Clean Energy have improved this year but are still approximately \$12 million, or 4 cents in net operating earnings per share, lower than what NiSource was anticipating when it issued its original guidance, due to delays in the regulatory process. The start-up of MISO has resulted in costs to NiSource of approximately \$8 million, or 3 cents per share in net operating earnings, that are not recoverable under current regulatory agreements due to expire in mid-2006.

Natural gas usage by customers of NiSource's local distribution companies is anticipated to be approximately \$14 million, or 5 cents in net operating earnings per share, lower than what NiSource was anticipating when it issued its original guidance. High gas costs in the wholesale market, which are passed through without mark-up to utility customers, could affect customers' demand for natural gas during the fourth quarter of 2005 and throughout the winter.

Skaggs noted that the unusually active hurricane season and resulting natural gas price volatility have created an unprecedented dynamic for the energy industry.

"This has had a significant impact on natural gas prices that will likely affect natural gas usage, limit the opportunities for commercial activities for the foreseeable future, and may impact the potential for innovative regulatory initiatives," Skaggs said. "We are now dealing with these issues, which we expect to continue for the remainder of the year and extend into 2006.

"I am pleased to report that our pipelines did not suffer severe damage from Hurricanes Katrina and Rita, and we do not anticipate the cost of repairing our facilities to result in a material impact on 2005 results," he added. "We anticipate having substantially all of our facilities able to accept gas by Nov. 15, so the impact for the remainder of the year and for 2006 will depend primarily on when Gulf Coast supplies, processing facilities, pipelines and throughput return to pre-hurricane levels.

"Although we're facing significant near-term challenges in a volatile market environment, we remain committed to ongoing execution of our comprehensive, four-part business plan," Skaggs said.

## Financial process transitioned to IBM

Posted: 11-03-2005 at 04:00 Eastern Time

On Nov. 1 IBM assumed responsibility for several NiSource financial processes. This initial transition is an important element of the overall transformation of Finance and Accounting. The transformation will include consolidation of our multiple financial systems, new tools and processes for budgeting and time and expense reporting, and new capabilities for data reporting and analysis.

This transition will have no affect on most employees, but [in some cases your points of contact for financial services have changed](#). If you are affected you should already have been notified of the change by e-mail.

If you have any questions about NiSource's transformation, the relationship with IBM, the relationship with IBM, or any other topics please feel free to use [MySource Feedback](#) to contact the Finance and Accounting Transition team.

## Employees invited to learn more about HRSource

*Sametime/Meeting Place sessions set*

Posted: 11-03-2005 at 04:52 Eastern Time

The new online human resources information tool, [HRSource, launched earlier this week](#). This secure point of access for general HR information provides answers to commonly asked HR questions.

Employees are invited to participate in virtual information sessions on November 8 and 10. The sessions will offer employees a virtual "tour" of HRSource as well as a chance to have questions answered.

### HRSource Virtual Sessions—Meeting Place and Sametime Information

	Date	Time	Meeting Place ID	Sametime Session Name
HRSource Information Session I	Tuesday, Nov. 8	9:30 EST (8:30 CST)	1.888.481.1480 ID:4567	HRSource Information Session
HRSource Information Session II	Thursday, Nov. 10	9:30 EST (8:30 CST)	1.888.481.1480 ID:4567	HRSource Information Session

It is recommended that employees gather in conference rooms where available.

### Wondering where to find HR-related information?

For	Contact	Online	Phone
Retirement/pension, health and welfare benefits information and open enrollment (i.e. health/life insurance).	<b>MySource for HR/Benefits Source</b>	<a href="http://www.mysourceforhr.com">www.mysourceforhr.com</a>	1-888-640-3320
401K/investment information		<a href="http://www.401k.com/">http://www.401k.com/</a>	1-800-305-4015
Payroll-related questions	<b>Payroll</b>	<a href="mailto:payroll@nisource.com">mailto: payroll@nisource.com</a>	1-888-640-3320 select HR/Payroll at menu, or ask for payroll dept
Policy consultation, strategic HR consultation, compensation, etc.			Contact local HR professional
Mental health assistance	<b>Value Options (EAP)</b>	<a href="https://www.achievesolutions.net/nisource">https://www.achievesolutions.net/nisource</a>	1-800-946-5360
Questions about policy/procedures, vacation/holiday, time entry, job postings,	<b>HR Service Center or HRSource</b>	<a href="https://ehrkbihost.com/nisource">https://ehrkbihost.com/nisource</a> (User ID is Employee ID, initial PIN is your birthday in mmdd format. Example: Birthday of 10/24/2005 will have a PIN of 1024)	1-888-257-2588

performance management, compensation, employee services, etc.			
---	--	--	--

*Bargaining Unit employees should continue to use their normal sources to answer questions regarding bargaining unit contracts.*

Please remember that questions regarding NiSource's transformation, our relationship with IBM, or any other topics, can be submitted using [MySource feedback](#)

## Human Resources (HR) Transformation begins today ...

Posted: 10-31-2005 at 11:30 Eastern Time

Today Human Resources introduces the first of several new HR tools to all employees.

A new online information tool is now available called **HRSource** where employees can find answers to commonly asked HR questions. This tool will be accessible both from *MySource* as well as directly via the Internet. The specific URL is included in the table below.

In addition, starting today, a new **HR Services Center** replaces the service centers in Merrillville, Charleston and Pittsburgh. The new center, provided by IBM, will offer the same information with the ease of a single phone number. The new number is included in the table below.

Employees will be invited to participate in one of the optional Sametime sessions over the coming weeks. Participants will have the opportunity to view HRSource and ask any questions. Watch *MySource* for details about the Sametime sessions.

### Wondering where to find HR-related information?

For	Contact	Online	Phone
Retirement/pension, health and welfare benefits information and open enrollment (i.e. health/life insurance).	<b>MySource for HR/Benefits Source</b>	<a href="http://www.mysourceforhr.com">www.mysourceforhr.com</a>	1-888-640-3320
401K/investment information		<a href="http://www.401k.com/">http://www.401k.com/</a>	1-800-305-4015
Payroll-related questions	<b>Payroll</b>	<a href="mailto:payroll@nisource.com">mailto: payroll@nisource.com</a>	1-888-640-3320 select HR/Payroll at menu, or ask for payroll dept
Policy consultation, strategic HR consultation, compensation, etc.			Contact local HR professional
Mental health assistance	<b>Value Options (EAP)</b>	<a href="https://www.achievesolutions.net/nisource">https://www.achievesolutions.net/nisource</a>	1-800-946-5360
Questions about policy/procedures, vacation/holiday, time entry, job postings, performance management, compensation, employee services, etc.	<b>HR Service Center or HRSource</b>	<a href="https://ehrkb.ihost.com/nisource">https://ehrkb.ihost.com/nisource</a> (User ID is Employee ID, initial PIN is your birthday in mmdd format. Example: Birthday of 10/24/2005 will have a PIN of 1024)	1-888-257-2588

*Bargaining Unit employees should continue to use their normal sources to answer questions regarding bargaining unit contracts.*

Please remember that questions regarding NiSource's transformation, our relationship with IBM, or any other topics, can be submitted using [\*\*MySource feedback\*\*](#).

## Financial process contacts detailed

Posted: 10-27-2005 at 04:49 Eastern Time

As previously communicated, IBM will assume responsibility for several NiSource financial functions on Nov. 1. These work processes have not changed, but some individual points of contact are new. These contacts are detailed below and become effective Nov. 1. In addition, employees will be notified by e-mail if their primary contact is changing. Please continue to use the current contacts until Nov. 1.

### Accounts Payable

The accounts payable services provided to NiSource business units will not change for end users of these services. Please continue to follow the current accounts payable procedures for processing invoices and employee expense statements on and after Nov. 1, 2005.

Please be advised that any contacts previously utilized for Columbus based Accounts Payable and expense statement questions will no longer be available. ALL questions on Columbus based Accounts Payable Voucher/Invoices need to be directed to (614) 460-4600 or [nisourceaccountspayable@nisource.com](mailto:nisourceaccountspayable@nisource.com). (Contacts for NIPSCO, Kokomo and NIFL Accounts Payable and travel and expense statements remain unchanged).

**Daniel Derkowski** of IBM will be the manager overseeing Accounts Payable and T&E paper expense statements. Derkowski can be contacted via e-mail at [dderk@us.ibm.com](mailto:dderk@us.ibm.com).

### Fixed Asset Accounting

#### *Pipeline Organization*

Questions and requests related to Pipeline Fixed Assets should be directed to **Paula Tiefenthaler** at (918) 925-6954, [Ptiefen@us.ibm.com](mailto:Ptiefen@us.ibm.com). The secondary contact is **Debra Ropp** at (918) 925-7256, [Roppdebr@us.ibm.com](mailto:Roppdebr@us.ibm.com).

#### *Energy Distribution East*

The primary contact for questions and requests for and about work orders, ad hoc reports, Power Plant issues, NBV requests and any other questions related to EDE Fixed Assets will be **Lon Patton** at (614) 460- 6886 or [lpatton@nisource.com](mailto:lpatton@nisource.com).

#### *NIPSCO*

The primary contact for questions and requests for and about work orders, ad hoc reports, Power Plant issues, NBV requests and any other questions related to NIPSCO Fixed Assets will be **Belinda Bosch** at (219) 647- 6143, [bbosch@nisource.com](mailto:bbosch@nisource.com).

### Budgeting

The budgeting transition will not affect most users. Employees should continue to expect the same level of service you receive today in terms of report generation, variance analysis and research.

Some budgeting points of contact may change, but if you are affected you will be notified before transition. The NiSource Budgeting and Reporting Manager will be **Greg Slone**, who can be reached at (804) 768-6467, or via e-mail at [gds lone@nisource.com](mailto:gds lone@nisource.com).

### Online Expense Reporting

The IBM Travel and Expense group will assume processing of the On-line Expense Reporting tools for NiSource Corporate Services and Columbia Distribution Companies. Please mail all supporting documents (hardcopy forms and receipts) via interoffice mail to:

ATTN: Online T&E Processing

## Accounts Payable - Civic Center Hqtr

If you have any questions regarding online expense reporting please contact IBM Customer Service at (918) 925-6132. Please have the date of expense report you are inquiring about available for faster service.

### General Accounting

Most business processes will not change for issues related to General Accounting. For routine, day-to-day General Accounting issues new contacts are shown below:

IBM/NiSource General Accounting Organization – Management Team			
IBM Contact	Telephone #	e-mail address	Role
<b>Jim Ginther</b>	918/625-2914	<a href="mailto:James.r.ginther@us.ibm.com">James.r.ginther@us.ibm.com</a>	General Accounting Manager
<b>Trevor Dillinger</b>	614/460-4617	<a href="mailto:tdillinger@nisource.com">tdillinger@nisource.com</a>	GA Manager Pipeline
<b>Brad Vangen</b>	614/460-4763	<a href="mailto:bvangen@nisource.com">bvangen@nisource.com</a>	GA Manager Corporate Accounting Services
<b>Patty Deboe</b>	219/647-5453	<a href="mailto:padeboe@nisource.com">padeboe@nisource.com</a>	GA Manager NIPSCO
<b>Jeff Gore</b>	614/460-6471	<a href="mailto:jefferygore@nisource.com">jefferygore@nisource.com</a>	GA Manager Distribution: BSG, CGV, CKY, NRS
<b>Brian Elliott</b>	614/460-4841	<a href="mailto:belliott@nisource.com">belliott@nisource.com</a>	GA Manager Distribution: COH, CPA, CMD, CORC, Misc. A/R

For non-routine Corporate Accounting issues related to rate cases, reporting, allocation questions, or similar topics please contact **Kevin Johnson** at (614) 460-5905 for Corporate Services Accounting and **John Siegle** for Corporate Accounting at (614) 460-4920.

If you have any questions about NiSource's transformation, the relationship with IBM, the relationship with IBM, or any other topics please feel free to use [MySource Feedback](#) to contact the Finance and Accounting Transition team.

## October update on NiSource's transformation -- Two key milestones coming soon

...

### *A message from Violet Sistovaris*

Posted: 10-21-2005 at 05:34 Eastern Time

NiSource's enterprise-wide transformation continues with good progress and many significant milestones since my monthly update in September. I won't list all of the key activities, but you may have heard about the Leadership Summit hosted by **Bob Skaggs**, which included some key updates on our transformation, particularly in human resources and supply chain, or **Harris Marple's** leadership meeting in Pittsburgh which included the vision for distribution operations and key activities related to our work management transformation.

As I look ahead, there are two critical transformation milestones set to take place in the near future. As part of transitioning responsibility for our HR and financial processes to IBM, we will launch new services using new technologies and IBM's global network of operations. The descriptions of those milestones are provided below.

Watch MySource for more details about both of these activities later this month. While, as always, we anticipate smooth transitions for these two towers, please bear in mind that your patience and understanding are appreciated as we work through the key processes.

In addition, please remember that questions regarding NiSource's transformation, our relationship with IBM, or any other topics, can be submitted using [MySource feedback](#).

### *Violet Sistovaris*

#### **HR transitions to new service center and new online information source**

The HR Tower will launch a new online information tool called HRSource where employees can find answers to commonly asked human resources questions. Details and training for the new online tool will be available prior to launch.

The Human Resources (HR) transformation will include a variety of new tools to help NiSource achieve best practices in the utility industry.

In addition, a new Human Resources Service Center will replace the service centers in Merrillville, Charleston and Pittsburgh. The new center provided by IBM will offer the same information with the ease of a single phone number.

According to HR Tower Lead **Joel Hoelzer**, employees will be able to access their HR information in the same ways they always have. The important difference will be the new phone number for the service center and the new online HR information source.

As an important note, these two changes in HR will not impact benefits enrollment in any way. Please continue to use Hewitt's MySource for HR/Benefits Web site and the Hewitt phone number in the table below for all questions and actions related to your benefits.

#### **Wondering where to find HR-related information?**

For	Contact	Online	Phone
Retirement/pension, health and welfare benefits information and open	<b>MySource for HR/Benefits Source</b>	<a href="http://www.mysourceforhr.com">www.mysourceforhr.com</a>	1-888-640-3320

enrollment (i.e. health/life insurance).	(Hewitt)		
Mental health assistance	<b>Value Options (EAP)</b>	<a href="https://www.achievesolutions.net/nisource">https://www.achievesolutions.net/nisource</a>	1-800-946-5360
401K/investment information		<a href="http://www.401k.com/">http://www.401k.com/</a>	1-800-305-4015
Payroll-related questions	<b>Payroll</b>	e-mail: payroll@nisource.com	1-888-640-3320 (Hewitt number above), select HR/Payroll at menu, or ask for payroll dept
Questions about policy/procedures, vacation/holiday, time entry, job postings, performance management, compensation, etc.	<b>HR Service Center or HRSource</b>	Coming Soon	Coming Soon
Policy consultation, strategic HR consultation, compensation, etc.			Contact local HR professional

**Note: Bargaining Unit employees should continue to use their normal sources for HR information that is covered in their contracts.**

#### **Financial process transition should mean little change for end users**

On Nov. 1, IBM will assume responsibility for several NiSource financial processes. This is a critical first step in the overall transformation of Finance and Accounting (F&A), which will include, among other elements, new platforms for financial systems, O&M budgeting, data warehouse, time and attendance tracking, and expense reporting. While this first step on November 1 will not change any activities for the vast majority of employees and most work processes in these areas will not change, NiSource will begin using IBM's global delivery network and technologies for many back-office activities.

For some functions individual points of contact may change. The details of these changes will be provided at a later date, and employees should continue to use current work processes until notified otherwise.

"While most employees will not see any change when we transition the work to IBM, this effort begins a longer term transformation that will provide NiSource with standard, efficient and cost-effective Finance and Accounting processes across the entire NiSource organization," says F&A Tower Lead **Jeff Grossman**.

The following areas are part of the transition of services to IBM. Please note that, in the future, these processes may change as we roll-out new F&A tools as described above, but this first step on November 1 will create the following changes for users. Employees whose points of contact will change as a result of the F&A transition will receive more information at a later date.

#### **Accounts Payable**

The accounts payable services provided to NiSource business units will not change for end users of these services. Please continue to follow the current accounts payable procedures for processing invoices and employee expense statements on and after November 1, 2005.

New contacts for Accounts Payable questions for Columbus-based Accounts Payable will be provided later this month. Contacts for NIPSCO, Kokomo and NIFL Accounts Payable will remain unchanged.

**Time reporting and expense statements**

There will be no changes to the current time reporting and expense statement processes for end users.

**Budgeting**

The budgeting transition will not affect most users. Some budgeting points of contact may change. Users should continue to expect the same level of service in terms of report generation, variance analysis and research.

**Fixed Asset Accounting**

Some employees who provide Fixed Asset accounting data, such as those managing capital projects, will have new contacts for this process; others will continue to work with the same individuals as previously.

**General Accounting**

General Accounting work processes will not change during transition, and most individual points of contact for General Accounting also will remain unchanged.

## **HR tower moves forward with transformation and transition**

### ***Advanced technology important factor for future***

Posted: 09-23-2005 at 05:12 Eastern Time

Human resources (HR) and organizational development (OD) employees recently received details about the transition and transformation of the HR function. The HR/OD staff was updated on the scope, progress and activities, and they were provided with a preview of some tools that will be introduced in the HR transformation. HR/OD employees also heard details about the Oct. 31 transition to a new HR service center to be managed by IBM.

According to Human Resources Vice President and HR Tower Lead **Joel Hoelzer**, these new tools and technologies, slated for implementation by first quarter 2006, will help transform how HR services are delivered and received at NiSource. Centralizing and standardizing HR activities will provide business efficiency, consistent data and consistent application of the policies and procedures that are corporate wide.

With new technological developments occurring every day, it is difficult and costly to simultaneously manage the company's core business while staying up to date with technology. With IBM's help, NiSource will be able to focus its energies on growing the core business - providing safe, reliable service to our customers.

"We're engaging the human resources team in the transition and transformation effort," says Hoelzer. "This is dramatic change in the way we do HR work. Using these technologies will help NiSource achieve the long-term sustainable growth we are striving for as a business."

According to Hoelzer, IBM will provide NiSource with system enhancements such as:

- Providing points of contact to address HR questions through the new online eHR system and a new NiSource HR service center (both to be available Oct. 31, 2005)
- Enhanced performance management tools to build, monitor and track employee performance. (Initial rollout beginning Dec. 2005 to support 2006 performance management process).

Additional support tools to be available early in 2006 include:

- Providing managers with easier access to information about their employees and new tools to assist them in managing their compensation plans and other employment events
- New recruiting tools
- Upgrades to PeopleSoft

"Achieving the benefits of this effort will require some level of change and commitment from everyone," says Hoelzer. "We must be supportive of one another as we work through this transition."

The transformation includes implementation of:

- **eHR**
  - eHR is HR information accessible by all NiSource leaders and employees through the MySource portal
  - eHR contains HR policies and procedures, contact information, checklists for HR processes, etc.
  - HR service center will use eHR information to assist leaders and employees in

- finding answers to their questions or directing them to the appropriate source.
- Case Management component escalates difficult issues and their resolutions; such information will build additional knowledge in the system.
- **SuccessFactors**
  - Introduces automated support for annual performance management process (PMWs)
  - Web-based performance and development tool
- **Global Imaging Workflow (GIW)**
  - Fax to imaging enables storage of electronic images of faxed documents
- **Manager Tools**
  - Leaders are able to review job data for employees
  - Can initiate transactions for employees
  - Approve employee-initiated transactions (ex. Leave Requests)
  - Trigger workflows for each type of transaction
- **Recruiting Management System**
  - Automates many aspects of recruiting, staffing and on-boarding activities
  - It will be integrated with other HR processes including PeopleSoft.
  - Provides NiSource leaders and employees the ability to:
    - Initiate staffing requisitions
    - Post open positions (will replace current posting system)
    - Apply for open positions
    - § Collect and review resumes
    - Track applicants
    - Maintain records on hiring process
- **Compensation tools**
  - Leaders can view salary data, incentive eligibility, promotions, job change actions, etc. for employees
  - Easy access for market salary data
  - Electronically allocate and process annual compensation and incentive actions

More details about the new tools will be available on *MySource* in the near future and users of the tools will receive training for each of the new self-service systems as they are introduced.

## **Work Management/GIS tower -- An update on NiSource's transformation**

*A message from Violet Sistovaris*

Posted: 09-16-2005 at 04:15 Eastern Time

As you know, NiSource's enterprise-wide transformation is underway. One key part of that transformation is our partnership with IBM. Since the initial announcement about our contract with IBM in late June, you've probably heard about our transformation from a variety of sources -- the initial press release, messages from **Bob Skaggs**, *MySource* articles, business unit presentations, or conference calls with slides about the transformation by "tower" or function. To keep everyone updated about the progress of this important initiative, here is the first overall communication about all activities related to our transformation efforts.

This update is structured with sections for each of the eight towers (i.e., business functions like HR or Finance & Accounting). **One tower will be featured each day for the next several days.**

[View Violet Sistovaris' entire message from Sept. 8.](#)

### **Work Management/GIS**

*As a reminder...*

- NiSource has begun a three-year project with IBM to implement common work management solutions (WMS) and geographical information systems (GIS) across operations. The focus of this project is on leveraging new tools and technology to support the standardization, integration and continuous improvement of our operating processes
- The benefits of this project will include:
  - Streamlined work forecasting and planning
  - Further optimization of work scheduling
  - Improved and more timely mapping capabilities
  - Further development of mobile technology
  - More timely information for analysis and decision-making
  - Enhanced regulatory reporting and compliance
  - Improved integration with other functional areas such as budgeting, materials management and New Business.

*Progress so far...*

- NiSource cross-functional teams of internal subject matter experts have been working this past month on activities including:
  - The Blueprint team - conducting a study of the "as is" work processes, organizations and technology tools within each Operations company.
  - The Business Performance Management team - reviewing availability of current management data, and developing methods and tools to ensure that benefits are identified and measured
  - First Steps team - evaluating short-term opportunities for improvement with existing mobile operations.
- The teams have completed over 100 interviews with various NiSource subject matter experts for input to their particular area of work.

- These teams have also begun work to define the people, process and technology needs that will make up the future "to be" state for operations.

*Next Steps ...*

- Identification of First Step priorities and recommendations for action will be made this month.
- Additional interviews and meetings with key NiSource stakeholders and other subject matter experts will be held throughout the month to gather further input for Blueprint and Business Performance Management recommendations.

## **Meter-To-Cash tower -- An update on NiSource's transformation**

### ***A message from Violet Sistovaris***

Posted: 09-15-2005 at 04:15 Eastern Time

As you know, NiSource's enterprise-wide transformation is underway. One key part of that transformation is our partnership with IBM. Since the initial announcement about our contract with IBM in late June, you've probably heard about our transformation from a variety of sources -- the initial press release, messages from **Bob Skaggs**, *MySource* articles, business unit presentations, or conference calls with slides about the transformation by "tower" or function. To keep everyone updated about the progress of this important initiative, here is the first overall communication about all activities related to our transformation efforts.

This update is structured with sections for each of the eight towers (i.e., business functions like HR or Finance & Accounting). **One tower will be featured each day for the next several days.**

[View Violet Sistovaris' entire message from Sept. 8.](#)

### **Meter-To-Cash (MTC)**

*As a reminder...*

- NiSource will consolidate key operations into an IBM Meter to Cash (MTC) center of excellence in Columbus.
- Billing exceptions & back office activities will be transitioned to IBM domestic and global centers of excellence.
- Other MTC transformation goals include:
  - To standardize processes.
  - To automate existing manual steps.
  - To leverage analysis of customers' behaviors to drive payment habits and reduce bad debt.
  - To expand the customer's usage of electronic payment and billing channels
  - To implement a common software system that integrates our CIS and DIS customer systems.

*Progress so far...*

- NiSource's retained organization for MTC, led by **Chuck Shafer**, is in place. Former NiSource employees have transitioned to employment at IBM or Vertex.
- Knowledge transfer, documentation reviews, and interviews of subject-matter-experts in Lorain, Ohio, have been underway since early July, including training preparation for January transition of MTC process activities to IBM global locations.

*Next steps...*

- Technology solution development related to the common software system for DIS and CIS customer systems.
- Training in October for IBM regarding activities to transition to IBM.

## **Human Resources tower -- An update on NiSource's transformation**

### ***A message from Violet Sistovaris***

Posted: 09-14-2005 at 04:15 Eastern Time

As you know, NiSource's enterprise-wide transformation is underway. One key part of that transformation is our partnership with IBM. Since the initial announcement about our contract with IBM in late June, you've probably heard about our transformation from a variety of sources -- the initial press release, messages from **Bob Skaggs**, *MySource* articles, business unit presentations, or conference calls with slides about the transformation by "tower" or function. To keep everyone updated about the progress of this important initiative, here is the first overall communication about all activities related to our transformation efforts.

This update is structured with sections for each of the eight towers (i.e., business functions like HR or Finance & Accounting). **One tower will be featured each day for the next several days.**

[View Violet Sistovaris' entire message from Sept. 8.](#)

### **Human Resources (HR)**

*As a reminder...*

- A key goal is a continued move towards a centralized self-service model for HR service delivery. This will provide:
  - Manager access to real-time data
  - Increased employee self-sufficiency.
  - Opportunities to leverage IBM's industry best practices and improved tools and technologies.
- We will implement multiple self-service tools, including eHR, Manager Self Service, and eComp. These technology enhancements will enable managers to more easily initiate many HR activities and provide for quicker access to important information.

*Progress so far...*

- NiSource's HR transformation team, led by **Joel Hoelzer**, has been formed.
- Former NiSource employees have transitioned to employment at IBM.
- Documentation reviews and interviews of subject-matter-experts have been underway since early July.
- The core teams working on the project from NiSource and IBM have had demos for the software applications comprising the transformation.
- Detailed work has been done in designing and coding for the various application tools.

*Next steps...*

- NiSource Human Resources and IBM are meeting with the field HR and OD community to outline specific process changes, introduce the software tools, and to discuss implementation considerations.
- Knowledge transfer for specific work transitioning to IBM begins next week.
- Presentations to other key NiSource stakeholder groups.
- Preparation of training tools for transformation.

## **Supply Chain tower -- An update on NiSource's transformation**

### ***A message from Violet Sistovaris***

Posted: 09-13-2005 at 04:15 Eastern Time

As you know, NiSource's enterprise-wide transformation is underway. One key part of that transformation is our partnership with IBM. Since the initial announcement about our contract with IBM in late June, you've probably heard about our transformation from a variety of sources -- the initial press release, messages from **Bob Skaggs**, *MySource* articles, business unit presentations, or conference calls with slides about the transformation by "tower" or function. To keep everyone updated about the progress of this important initiative, here is the first overall communication about all activities related to our transformation efforts.

This update is structured with sections for each of the eight towers (i.e., business functions like HR or Finance & Accounting). **One tower will be featured each day for the next several days.**

[View Violet Sistovaris' entire message from Sept. 8.](#)

### **Supply Chain**

*As a reminder...*

- As of July 1, IBM assumed responsibility for many of NiSource's procurement activities.
- Our transformation goals are to leverage purchased spend across NiSource and IBM, where practical, to:
  1. Achieve savings
  2. Increase operating efficiency by adopting standard processes, policies and technology
  3. Conduct comprehensive reporting and analysis.
- We will have one procurement system to source materials and services giving us better specifications and controls.
- There will be three waves of strategic sourcing (a process of evaluating and selecting suppliers to balance cost and service quality) covering over 20 categories of purchases.

*Progress so far...*

- NiSource's retained organization for Supply Chain is now led by **Tim Tokish**. Former NiSource employees have transitioned to employment at IBM.
- The Executive Council approved the initiation of a study of fleet procurement, inventory management, and warehouse automation.
- We have communicated with our strategic supplier base regarding our outsourcing initiative.

*Next steps...*

- Sourcing teams are being pulled together to review the first wave of types of purchases.

- Beginning the study of fleet procurement, inventory management, and warehouse automation described above.
- Workshops for IBM's Procure-to-Pay (P2P) procurement system which is a new enterprise-wide system that will handle common processes for purchases, from the initial requisition to the disbursement of payment

## **IT tower -- An update on NiSource's transformation**

### ***A message from Violet Sistovaris***

Posted: 09-12-2005 at 04:00 Eastern Time

As you know, NiSource's enterprise-wide transformation is underway. One key part of that transformation is our partnership with IBM. Since the initial announcement about our contract with IBM in late June, you've probably heard about our transformation from a variety of sources -- the initial press release, messages from **Bob Skaggs**, *MySource* articles, business unit presentations, or conference calls with slides about the transformation by "tower" or function. To keep everyone updated about the progress of this important initiative, here is the first overall communication about all activities related to our transformation efforts.

This update is structured with sections for each of the eight towers (i.e., business functions like HR or Finance & Accounting). **One tower will be featured each day for the next several days.**

[\*\*View Violet Sistovaris' entire message from Sept. 8.\*\*](#)

### **Information Technology**

*As a reminder...*

- On July 1, IBM assumed responsibility for applications maintenance and development, infrastructure operations, voice and data networks, help desks and SCADA support.
- IBM assists with, but does not assume, control of IT strategy & architecture, disaster recovery, regulatory compliance, and IT security.
- End user services including help desk and network support will be fully transitioned to IBM's service delivery model by the end of 2005.
- Application maintenance will be transitioned to IBM global locations by beginning of 2006.
- Server consolidation will be ongoing over 18 months.

*Progress so far...*

- NiSource's retained organization for IT is now led by **Dick James**. Former NiSource employees have transitioned to employment at IBM.
- Knowledge transfer, documentation reviews, and interviews of subject-matter-experts have been underway for various IT activities since early July.

*Next steps...*

- During the next four months and into 2006, the focus of IT will be in supporting the partnership of NiSource and IBM in its transition and transformation process and in the implementation of major projects in Human Resources, Finance and Accounting, Supply Chain, Gas Management, Operations and Meter-to-Cash.
- As part of the transition to IBM, knowledge transfer for application services begins in September.

## **F&A tower -- An update on NiSource's transformation**

### ***A message from Violet Sistovaris***

Posted: 09-09-2005 at 03:15 Eastern Time

As you know, NiSource's enterprise-wide transformation is underway. One key part of that transformation is our partnership with IBM. Since the initial announcement about our contract with IBM in late June, you've probably heard about our transformation from a variety of sources -- the initial press release, messages from **Bob Skaggs**, *MySource* articles, business unit presentations, or conference calls with slides about the transformation by "tower" or function. To keep everyone updated about the progress of this important initiative, here is the first overall communication about all activities related to our transformation efforts.

This update is structured with sections for each of the eight towers (i.e., business functions like HR or Finance & Accounting). **One tower will be featured each day for the next several days.**

[View Violet Sistovaris' entire message from Sept. 8.](#)

### **Finance & Accounting (F&A)**

*As a reminder...*

- General accounting, fixed assets, budgeting, accounts payable and expense statement processing will transition to IBM beginning Nov. 1, 2005. Payroll services transition to IBM on Jan. 1, 2006.
- The transformation of F&A will:
  - Include common platforms for financial systems, O&M budgeting, data warehouse, time & attendance tracking, and expense reporting;
  - Retain the strategic interface between business units and financial support expertise;
  - Source transactional work geographically based on functional expertise and process.
  - Implement new analytic tools to improve financial planning and reporting processes.

*Progress so far...*

- NiSource's financial reporting and accounting functions continued to be led by **Jeff Grossman** and the segment controllers. **Bob Kriner** is leading the transition work, while Karen Townsend is leading the transformation effort.
- IBM has started reviewing and documenting NiSource quarter-end and month-end financial close processes.
- Knowledge transfer activities are underway as IBM team members watch NiSource employee perform their jobs for various processes (an activity called job shadowing).
- Selected software for common financial systems, including general ledger, data warehouse, time and attendance tracking and expense reporting.

*Next steps...*

- Prepare over the next two months for the transition of delivery responsibility to IBM.
- Prepare NiSource F&A employees who have accepted jobs with IBM for the transition to IBM as an employer.
- Make software selections for a common budgeting system.

- Provide employees throughout NiSource additional information and training as needed to use new systems and processes for accounts payable, expense statements, budgeting, etc.

## Update on NiSource's transformation (with CCC/Retail Sales Tower update)

*A message from Violet Sistovaris*

Posted: 09-08-2005 at 07:10 Eastern Time

As you know, NiSource's enterprise-wide transformation is underway. One key part of that transformation is our partnership with IBM. Since the initial announcement about our contract with IBM in late June, you've probably heard about our transformation from a variety of sources -- the initial press release, messages from **Bob Skaggs**, *MySource* articles, business unit presentations, or conference calls with slides about the transformation by "tower" or function. To keep everyone updated about the progress of this important initiative, here is the first overall communication about all activities related to our transformation efforts.

This update is structured with sections for each of the eight towers (i.e., business functions like HR or Finance & Accounting). **One tower will be featured each day for the next several days.**

Each tower overview includes:

- A reminder about the kind of transformation projects underway and our goals
- An update on progress so far
- An outline of some next steps and their potential impact on you and our organization.

With those objectives in mind, I also want to provide you with an overall view of the transformation, starting with a thank you for the hard work and support from everyone who has been involved. I am very proud of the partnership and collaboration that I've seen across NiSource and IBM.

As a reminder, we have transition and transformation initiatives across our business functions with some projects that will only last a few months and others, such as our Work Management transformation that will last years. Many of these transformation initiatives are technology related - providing new tools that will change the way we process and retrieve data and information. Our teams have a real understanding of the information and training that we all will require to successfully use these tools. All of these plans are key elements for achieving our platform for long-term sustainable growth.

In these tower specific updates, you will see our progress so far including, most notably, last week's consolidation of Marble Cliff contact center activity to Smithfield. Some other key activities across towers include:

- The establishment of an overall Project Management Office for the project and a Governance structure to outline and oversee how we are working with our partner, IBM.
- The transition of many NiSource employees to IBM or Vertex as their new employer.
- The development of NiSource and IBM core teams for each tower and each project to plan and implement actions to achieve their goals.
- The distribution of a survey to our Management Forum designed to measure NiSource's past experiences with large-scale transformation efforts, so that we can learn from those efforts and apply them in a useful manner to our current communications and change plans. Results are expected early this month.

As for next steps, we'll provide regular updates on upcoming events, particularly as we hit many key milestones over the next few months. As this transformation unfolds, we will all likely be affected by change - new technology tools, working with new or revised processes or

interacting with new or different employees in our day-to-day relationships. Thanks again for your efforts thus far. I look forward to your continued support as we progress through this transformation.

***Violet Sistovaris***

### **Customer Contact Centers (CCC)/Retail Sales Center**

*This week's key news and progress so far...*

As a significant milestone of our transformation project, beginning Sept. 1, most of the calls previously routed to the Marble Cliff Columbia Gas of Ohio (COH) contact center are now being taken by IBM/Vertex in the Smithfield, Pa., contact center. IBM and Vertex have had management responsibility for the Smithfield CCC since July. For the past several years, Smithfield has handled an increasing number of Ohio customer calls.

The phone number COH customers call remains the same: 1-800-344-4077.

"Our goal is to make this transition seamless to customers and we have contingency plans in place to help support a smooth changeover," says NiSource CCC Director **Mike Davidson**. "A number of Marble Cliff CCC employees have been asked to stay for an extended period as a safety net to ensure adequate service levels through transition. We remain committed to meeting the needs of our Ohio customers."

*As a reminder...*

- IBM/Vertex will also provide sales services and revenue recovery activities in addition to managing and operating CCC activities for NiSource.
- Vertex is the business process-outsourcing arm of United Utilities PLC in the UK.
- Some NiSource employees at the Marble Cliff CCC have transitioned to employment at IBM to handle non-call work for contact centers.
- In addition to the Marble Cliff CCC, we will consolidate Kentucky CCC and Portsmouth, N.H., Retail Sales Center activities to Smithfield later this year.

*Next steps...*

- Monitoring post-consolidation service level performance in Smithfield.
- Continued analysis and preparation for CCC and Retail Sales transformation projects and future consolidations, working with tower leads **Mike Davidson** (CCC) and **Scott MacDonald** (Retail Sales) and their teams.

## **Transition and Transformation Q&A August 8, 2005**

**Q: If I don't accept an offer from IBM, am I unemployed on July 1, 2005?**

**A:** You will not be eligible for severance. Your final day of work would be determined on an individual basis and your termination date could be as early as June 30, 2005.

**Q: If I'm employed by IBM, can I bid on a NiSource job?**

**A:** Yes. If you are currently an IBM employee and bid on a role that is posted externally. If the job is posted internally, you would not be eligible to apply.

**Q: How will unpaid vacation be handled?**

**A:** Unused vacation will be paid to the employee in their last paycheck or shortly thereafter.

**Q: Will NiSource pay out unused floating holiday time?**

**A:** Rebadged and severed employees who have floating holidays remaining, will be allowed to recharacterize previously taken vacation as floating holidays before termination of employment with NiSource.

**Q: Will an employee who has signed a severance agreement, then is offered employment with IBM, still be eligible for severance?**

**A:** Yes, the employee will be given the choice between the IBM offer of employment and the severance opportunity. However, once an employee accepts an offer of employment from IBM, severance eligibility is withdrawn.

**Q: How soon will I receive my severance check after my separation date?**

**A:** Your severance check will be sent within 7 – 10 business days after you sign the General Release on your separation date.

**Q: Can tax liability for your severance payment be deferred?**

**A:** No.

**Q: Will employees that are currently on LTD be receiving severance payments?**

**A:** No severance payments will be given to employees on LTD.

**Q: If I have been offered a severance package and I am eligible to retire, can I retire and also receive my severance payment?**

**A:** Yes, as long as you remain an active employee until your separation date or are excused by management at an earlier date.

**Q: If I accept a rebadge offer, what happens to my NiSource vacation?**

**A:** You will receive payment for earned and unused vacation time, based upon the vacation policy of the applicable Affiliate on the date of termination.

**Q: I have received a severance package and I am scheduled to be on vacation during the last two weeks of my employment. Will I still be able to take my vacation and receive my severance payment?**

**A:** You should discuss your vacation request with your supervisor to ensure that all transition needs can be met in your absence. You are still eligible to receive a severance payment, provided you submit a signed Letter Agreement on or before the deadline date indicated on your Letter Agreement.

**Q: Will the Lee Hecht Harrison 2-day workshop for severed nonexempt employees be offered during Company time?**

**A:** We will schedule offerings of the workshop throughout the year. The workshops will be offered on back to back Fridays & Saturdays and you may take Company time to attend the Friday portion of the workshop.

**Q: I don't participate in the NiSource health benefits program today, but my severance letter indicates that my termination of employment is a qualifying event under COBRA. Does this mean that I will be given the opportunity to participate in NiSource's medical, vision, and dental benefits plan for 18 months if I choose to do so now?**

**A:** Yes.

**Q: Can a severed or rebadged employee who is eligible for the newly offered "grow-in" for retiree health care and retiree life insurance, elect to participate in NiSource's retiree medical plan as early as age 55, even if he/she is employed elsewhere at that time and is not retired from employment?**

**A:** Yes. For severed employees, this benefit will be provided if the employee signs the Letter Agreement. For rebadged employees, this benefit will be provided if the employee accepts the job offer from IBM.

**Q: If I have been severed, can I bid on NiSource positions after my separation date?**

**A:** You will not be eligible to bid on NiSource positions through our internal posting and bidding program after your separation date. You may apply for NiSource positions as an external applicant by viewing any external job opportunities that are posted on the external NiSource internet website, following the same application procedures as other external candidates. If you seek re-employment with any NiSource Company and are subsequently re-hired, then a pro-rata portion of your severance payment must be repaid as of the rehire date as a condition of re-employment.

**Q: I have received a severance package, but I am eligible for a performance progression award before my termination date. Will I be able to receive that progression award, and will my new rate of pay be used to recalculate my severance payment?**

**A:** We will continue to apply our current compensation practices, including performance progression rewards up to your separation date. The severance will be recalculated.

**Q: Will exit interviews be conducted with those employees leaving NiSource and joining IBM? If so, will topics such as pension, retirement, flexible spend, and 401K be addressed during these sessions?**

**A: No.**

**Q: Will vacation time banked from previous years be paid out?**

**A:** Yes, banked vacation will be paid out in the final paycheck.

**Q: How will flexible spending accounts be treated?**

**A:** Employees will not lose dollars that they have contributed to their NiSource flexible spending accounts. These dollars will still be made available for use for services rendered before your termination date.

**Q: Will I retain the hardware (i.e. cell phone, blackberry, pager, laptop) that I currently use to perform my job?**

**A:** IBM is in the process of taking inventory and will be working with NiSource to ensure that employees have the proper equipment to perform their job.

**Q: At present I have access to several NiSource facilities. Having this access allows me to perform my job. Will I continue to have access to these same facilities as an IBM employee? Also will I have access to all the equipment that I currently utilize to do my job?**

**A:** As an IBM employee you will continue to have access to the same NiSource facilities needed to perform your job. Regarding tools, IBM is currently taking inventory and addressing it with NiSource.

**Q: Will rebadged employees retain the purchase card (P-Card) and American Express corporate cards?**

**A:** There will be a transition to IBM expense processing for all rebadged employees. This transition process was reviewed during the IBM sign-on sessions.

**Q: What is the status of contract employees?**

**A:** All contract employees are being handled on an individual basis.

**Q: Will IBM employees be managing NiSource staff?**

**A:** IBM employees will not manage NiSource staff.

**Q: Can an individual initiate and commence retirement without commencing post-retirement medical benefits?**

**A:** Yes. An employee can waive coverage under the post retiree medical plan. This is an annual waiver of coverage.

**Q: Can I bank vacation and/or floating holidays before I am separated from NiSource? If so, what is the process?**

**A:** You may bank unused vacation and/or floating holidays if you will be age 45 or older on your day of separation. You need to submit a request stating the number of hours to your Human Resources Consultant in writing (e-mails are acceptable).

**Q: Can I apply my banked vacation to my 401(k)?**

**A:** Yes. Payout of banked vacation can be contributed to your 401(k) in the same contribution percentage as your current 401(k) election.

**Q: What is the company-paid COBRA benefit?**

**A:** Contact your local HR Consultant.

**Q: Are educational reimbursement obligations forgiven for employees who are severed or rebadged?**

**A:** Yes

## NiSource reports earnings for second quarter 2005

Posted: 07-28-2005 at 08:23 Eastern Time

NiSource Inc. today reported income from continuing operations for the three months ended June 30, 2005, of \$7.9 million, or 3 cents per share (all per-share amounts are basic), compared with income from continuing operations of \$35.5 million, or 13 cents per share, for the second quarter of 2004.

The quarterly results reflect the impact of \$31.2 million, or 7 cents per share, of charges NiSource recorded during the second quarter of 2005 for restructuring expenses, consulting fees and obsolete software systems in connection with the outsourcing agreement with IBM and other business transformation activities. In addition, second-quarter 2005 results include a \$10.9 million, or 4 cents per share, impairment charge related to goodwill at one of NiSource's small Indiana distribution companies, which is currently under an earnings cap.

NiSource expects additional charges in connection with the outsourcing agreement with IBM and other business transformation activities during the second half of 2005 to be in the range of \$40 million to \$45 million. These charges include non-cash pension and other retirement benefit costs and IBM transition fees.

Net income was \$39.0 million, or 15 cents per share, for the second quarter of 2005. This compares to net income of \$34.6 million, or 13 cents per share, for the year-ago period. The 2005 results included \$31.1 million of income from discontinued operations. Operating income was \$119.4 million for the second quarter of 2005, compared with \$157.8 million for the same period in 2004.

"Operating results from our core utility and pipeline assets remain solid," said **Robert C. Skaggs, Jr.**, NiSource President and Chief Executive Officer (CEO). Skaggs assumed the CEO role effective July 1, 2005, upon the retirement of **Gary L. Neale**, who remains Chairman of the Board.

"We have said since the beginning of 2005 that this will be a base year, from which we will build a platform for long-term, sustainable growth," Skaggs added. "We continue to resolve issues and to demonstrate steady progress on our business plan, which is focused on four elements: growth in our pipeline business; regulatory and commercial initiatives; management of our balance sheet and expense management."

For the six months ended June 30, 2005, NiSource reported income from continuing operations of \$216.6 million, or 80 cents per share, compared with \$252.3 million, or 96 cents per share, in the same period of 2004. Net income for the first six months of 2005 was \$245.3 million, or 91 cents per share, compared with \$248.1 million, or 95 cents per share, for the same period a year ago.

The six-month results for 2005 include the same restructuring and other charges outlined in the second-quarter discussion.

One cent of the decline in earnings per share for the quarter, and 3 cents of the decline in the six-month results, were the result of an increase in the average number of shares outstanding at June 30, 2005, compared to the year earlier, primarily due to the issuance during the fourth quarter of 2004 of 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's Stock Appreciation Income Linked Securities (SAILS<sup>SM</sup>).

Skaggs noted that recent developments include the following:

- NiSource is moving forward on an opportunity, announced earlier this year, to refinance \$1.1 billion of Columbia Energy Group debentures that become callable on Nov. 28, 2005. The company has received offers to purchase an aggregate of \$900 million of unregistered senior notes issuable in seven-, 10-, 11- and 20-year tranches at a weighted average interest rate of 5.52 percent, with settlement scheduled for Nov. 28, 2005. The transaction is subject to the purchasers' due diligence and negotiation of definitive agreements. NiSource expects to finalize documentation by mid-August and will announce specific details after definitive agreements are executed.
- NiSource and IBM signed a definitive agreement for IBM to provide a broad range of business transformation and outsourcing services to NiSource. The 10-year agreement is expected to deliver upwards of \$530 million in gross savings in operating and capital costs across NiSource's 15 primary operating subsidiaries over the course of the contract, as well as provide technology advances and enhanced service capabilities. IBM began providing service to NiSource on July 1, 2005.
- Northern Indiana Public Service Company (NIPSCO) continues to work with the Indiana Office of Utility Consumer Counselor (OUCC) and some of the utility's industrial customers to explore various options to address NIPSCO's need for additional power to meet its unique customer load. NIPSCO continues to be optimistic that the parties can collaborate to reach a mutually acceptable solution that will address electric reliability issues. Whiting Clean Energy, another NiSource subsidiary, offers an immediate, economic and dependable solution to the reliability concerns for NIPSCO customers. The Indiana Utility Regulatory Commission (IURC) on July 1 issued an interim order approving NIPSCO purchases of Whiting Clean Energy power necessary to meet those reliability concerns. The order allows NIPSCO to recover only the fuel costs associated with such purchases through the normal fuel cost adjustment process.
- The Massachusetts Department of Telecommunications and Energy (DTE) is currently conducting hearings on Bay State Gas Company's \$22.2 million, or 4.7 percent, base rate case. The DTE is expected to issue an order no later than Nov. 30, 2005, with new rates going into effect no later than Dec. 1, 2005. The rate case includes requests for a performance-based rate plan and cost recovery for a steel infrastructure replacement program.
- NiSource's Pipeline Group, under the leadership of President Chris Helms, who joined the company in April, is well positioned to identify and capture long-term growth opportunities by helping meet increasing market demand for natural gas in the eastern United States. NiSource's Columbia Gas Transmission Corp. recently launched an open season for a proposed expansion of its natural gas transmission system in the Tidewater, Va., area. An open season was held recently for Millennium Pipeline, which is targeting a November 1, 2007, in-service date, pending the receipt of necessary approvals. Hardy Storage Company, LLC is on track to develop a natural gas storage field from a depleted natural gas production field in Hardy and Hampshire Counties, W. Va. Hardy Storage, which is being jointly developed by Columbia Gas Transmission Corp. and a subsidiary of Piedmont Natural Gas, filed its formal project application with the Federal Energy Regulatory Commission (FERC) in April.

"These important milestones are part of our four-point plan for growth and underscore NiSource's commitment to deliver on our business plan for 2005 and 2006," Skaggs said.

The full text of the earnings release, as well as a link to a conference call with investment analysts that will be hosted this morning by Skaggs and **Mike O'Donnell**, NiSource executive vice president and chief financial officer, are available via the NiSource [Web site](#).

**July 14, 2005**  
**Violet Sistovar**

## Transformation Summary

To listen to the audio portion of this presentation, click [here](#).

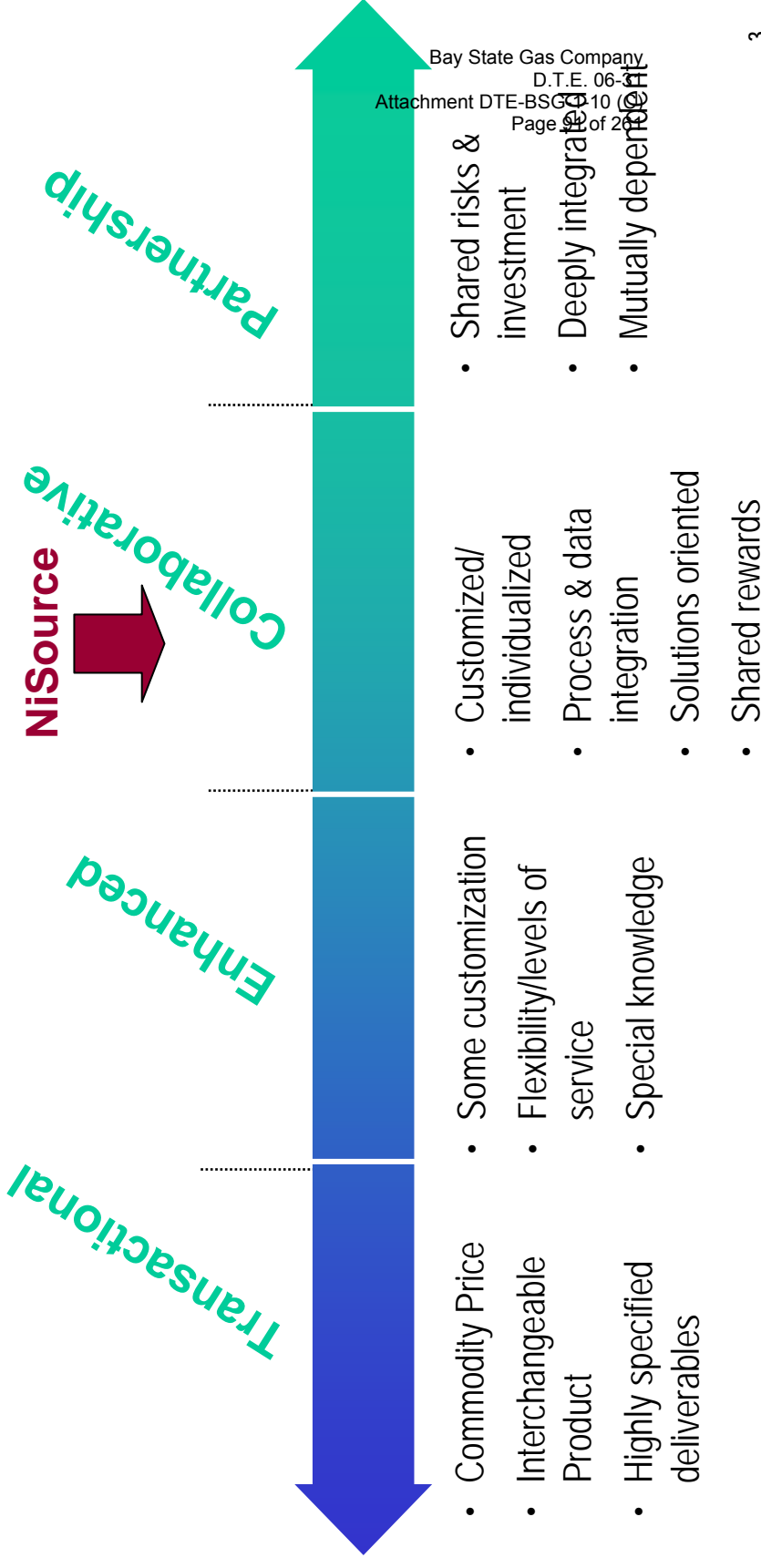
A new window will launch and the audio will immediately start playing. You may need to minimize that window to come back to the presentation.

## Transformation Summary

- Consolidate, standardize and reengineer existing processes that are fragmented in today's environment
- Adopt best practices from within the Utilities Industry and from other commercial market segments
- Develop work processes that radically improve the cost profile and service levels of the in-scope activities
- Identify policy changes, for consideration by NiSource leadership, that will dramatically improve both the efficiency and effectiveness of in-scope activities
- Develop tools and technologies that will facilitate the migration to best practice

- Each type of relationship is managed differently
- Determine the type of relationship you need, then build your capability around it

## Transformation Summary



## Transformation Summary

### Risk Mitigation

- Meet contractual obligations
- Ensure effective management
- Rapid resolution of issues
- Ensure management control
- Provide consistent direction to Provider



### Value Realization

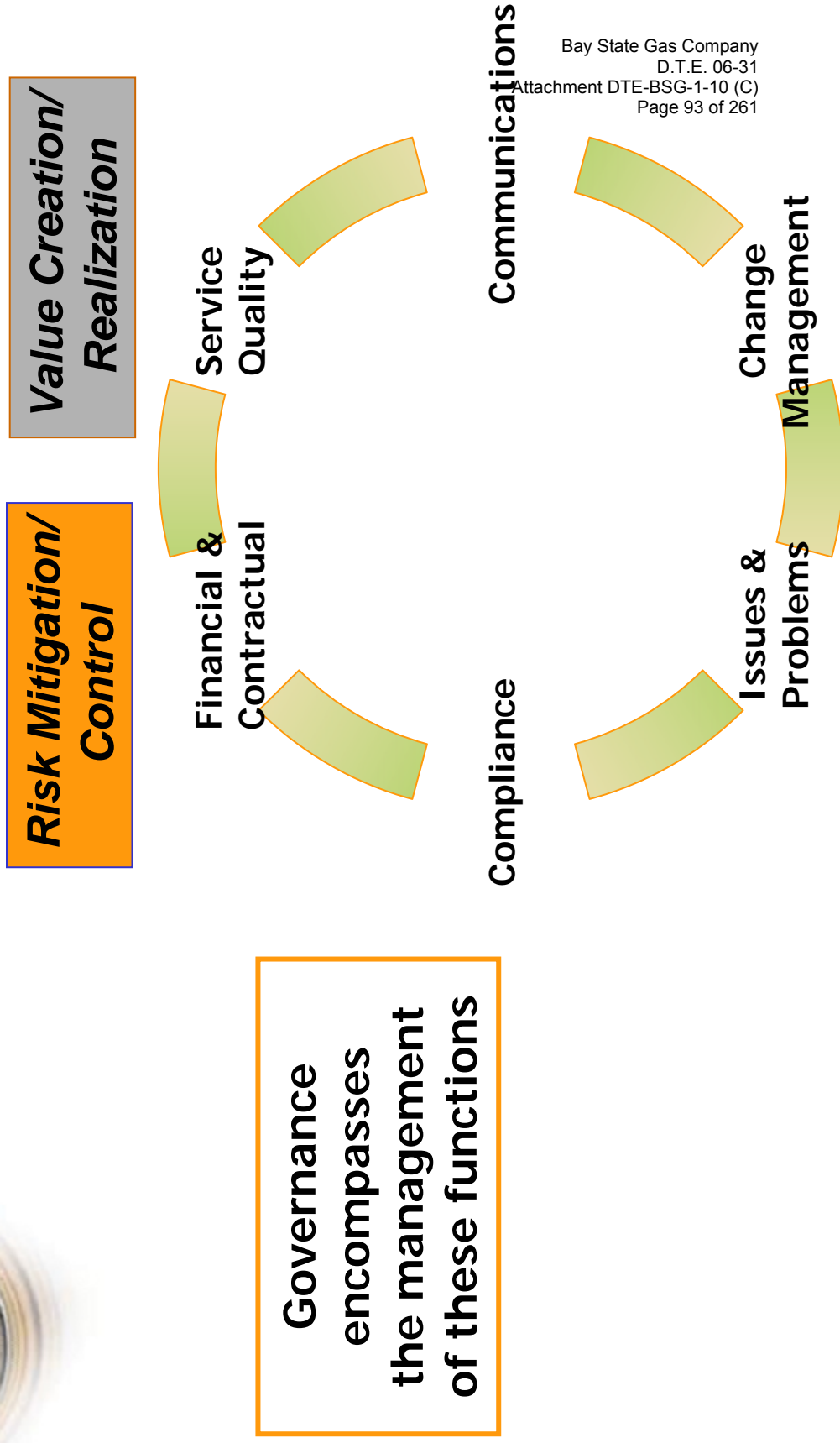
- Ensure delivery of expected Savings
- Ensure market pricing
- Manage demand
- Leverage and focus Provider capabilities
- Create optimization through standardization
- Institutionalize process improvement

Bay State Gas Company  
D.T.E. 06-31  
Attachment DTE-BSG-1-10 (C)  
Page 92 of 261

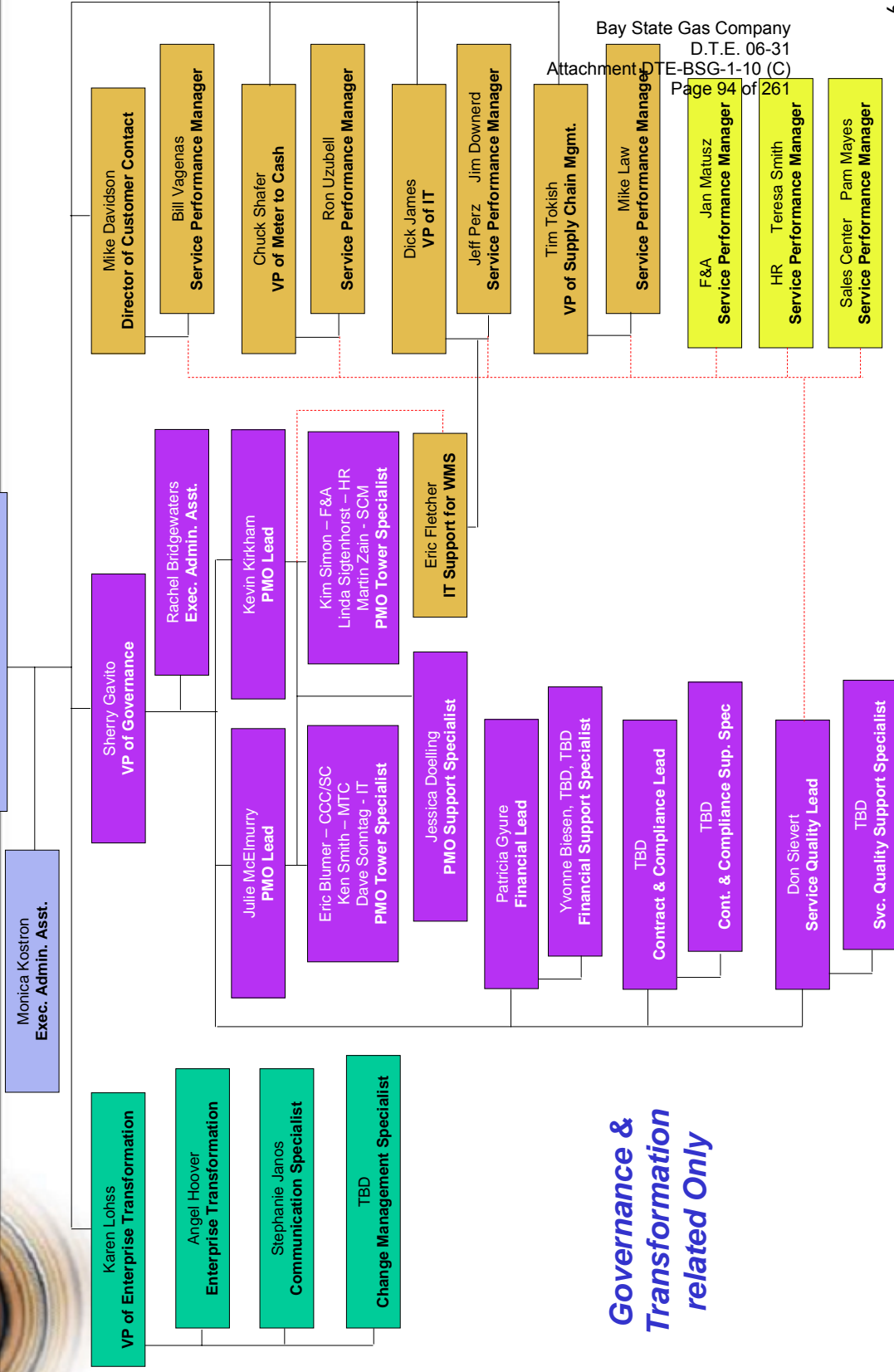
*Governance Design Must Effectively  
Balance These Objectives*

# Governance Functionality

## Transformation Summary

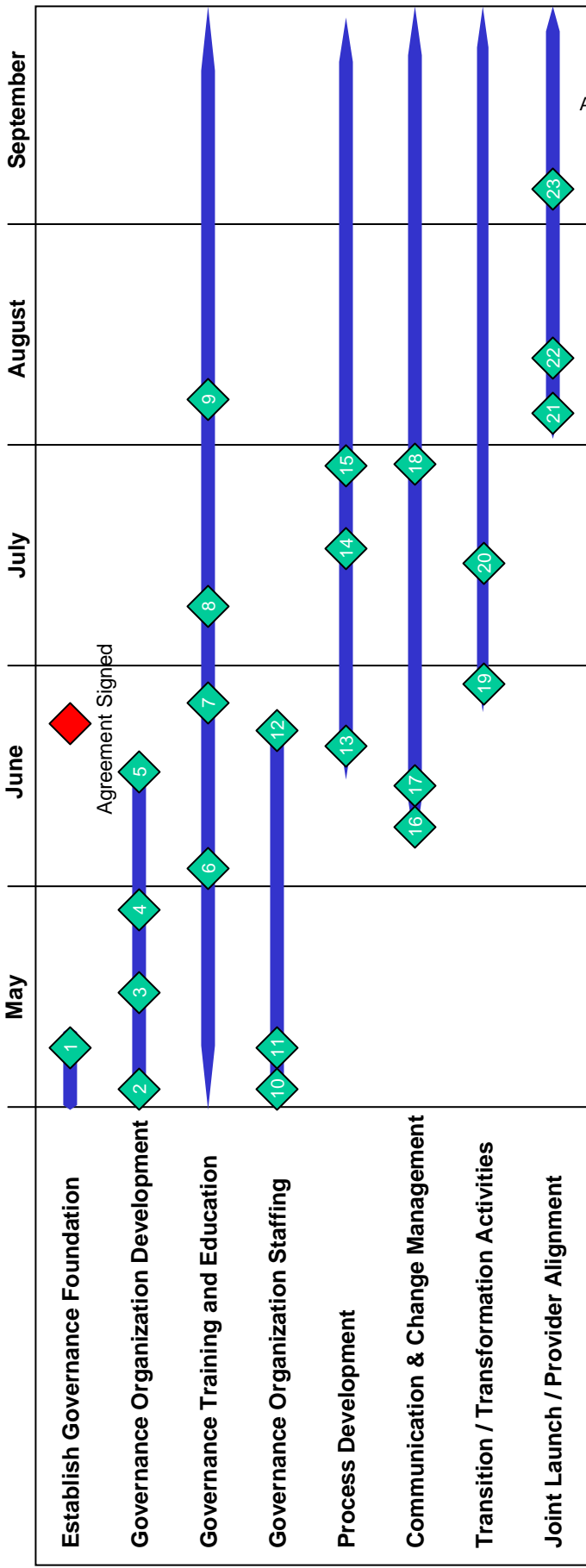


## Transformation Summary



Service Quality Management	Issue Management	Change Management	Commercial Management	Compliance Management	Communication Management
Service Performance Management	Escalated Operational Management	Strategic Change Management	Contract Change Management	Regulatory Compliance	Customer Relationship Management
Stakeholder Satisfaction Management	Critical Issues Management	Project Approval and Initiation	Invoice Verification and Payments Management	Internal and External Audit	Business Requirements Identification & Liaison
Service Knowledge Sharing	Emergency Management	Program Management/ Transition	Service Cost Allocation Management	Safety and Security	Corporate Communications Management
Root Cause Analysis		Demand & Consumption Management	Financial Benefits Realization Tracking and Lockdown	Data Privacy	Relationship Alignment Review
					3d Party Supplier Communications
					Other [Client] Policies and Procedures
					Business Continuity
					Asset Management

# Governance Implementation Timeline - Deliverables



## Deliverables by project workstream

<u>Establish Governance Foundation</u>	<u>Governance Training &amp; Education</u>	<u>Process Development</u>	<u>Transition / Transformation Activities</u>
1. Intent of the Deal	6. Leadership Education	13. Level 1 Processes & Definitions	19. Transition Resources Assigned
Relationship Type	7. Process Training Workshops	14. Level 2 Processes & Definitions	Transformation Resources Assigned
Guiding Principles	8. RM Training Workshops	15. Process Integration Workshops	20. PMO Process Training
Governance Team Mission	9. Individual Roles and Process Training		
<u>Governance Org. Development</u>	<u>Governance Org. Staffing</u>	<u>Communication and Change Management</u>	<u>Joint Launch / Provider Alignment</u>
2. Decision Rights Matrix	10. Position Descriptions	16. Governance Communication Plan	21. Process Integration Workshops
3. Org. Structure Finalized	11. Roles & Responsibilities	Transition Communications	22. Joint Launch Plan
4. Committee Structure Finalized	12. Staffing Plan	Transformation Communications	23. Joint Launch Sessions
5. Socialize Decision Rights		17. Change Management Plan	
		18. NiSource Governance Manual	

## Transformation Summary

### Questions?

Dial #71 from your phone to ask a question

## **'Taking the pulse' of transformation**

### ***Governance model key to successful NiSource/IBM relationship***

Posted: 07-14-2005 at 13:15 Eastern Time

Why are some outsourcing deals successful, while others struggle? The answer often lies in "governance," the business processes used to manage the relationship between a company and its service provider.

"The biggest key to success in outsourcing is having solid governance structures and procedures in place," **Violet Sistovaris**, senior vice president, administrative services, explains. "That's why NiSource has placed a tremendous amount of emphasis on developing a very strong governance model for our long-term relationship with IBM."

#### **A principled approach**

Sistovaris noted that well before a deal had been reached with IBM, NiSource established clear guiding principles for the company's long-term relationship with its service provider. These include:

- Focus on results for all stakeholders including business units, corporate functions, employees and customers.
- Foster a fair, productive and collaborative relationship in conjunction with "no surprise" communications across all functions, business units and the service provider to achieve results, reduce complexity and facilitate the rapid resolution of issues.
- Manage the "what" not the "how" - which means managing results and outcomes of a process vs. actually running the daily operation)).
- Maintain a focus on service excellence through proactive management of all service providers.
- Clearly articulate, monitor and report cost savings and service levels, in ways that are actionable and meaningful to all stakeholders.
- Maintain control through review and approval of key decisions and outcomes.
- Encourage innovation and simplify business operations and management processes wherever possible.
- Empower and leverage the providers' service expertise.
- Avoid duplication of service provider responsibilities.

"We felt it was important to develop a set of governance principles that would form the basis for a high-trust, value-focused relationship between NiSource and IBM going forward," Sistovaris says. "Regardless of the issue, we believe we can address it positively and efficiently within this framework."

#### **Center of Excellence staffing**

Once the transformation agreement with IBM was announced, NiSource immediately set to work staffing the governance team charged with overseeing the contract. The Governance group is separate from the retained organization structure announced last week, but several dotted-line reporting relationships exist between the two groups.

"Our governance team will work closely with employees in retained groups and across NiSource to continuously take the pulse of the organization, assess IBM service levels and address performance issues or changing business needs," Sistovaris says.

NiSource's Governance Center of Excellence, under the direction **Sherry Gavito**, vice president, governance, has responsibility for areas such as contract compliance, and service quality. The group also features a program management office (PMO) to monitor, track and report on all IBM projects. Positions in the Center of Excellence include PMO Leads **Julie**

**McElmurry** and **Kevin Kirkham**, Financial Manager **Pat Gyure**, contract and compliance manager (currently vacant) and Service Quality Manager **Don Sievert**.

On full-time assignment to lead the Enterprise Transformation Center of Excellence is **Karen Lohss**, serving in the role of vice president, enterprise transformation. NiSource's Organization Development function continues to report to Lohss, as does **Angel Hoover**, enterprise transformation, and a change management specialist position (currently vacant). **Stephanie Janos**, from Corporate Communications, also is on full-time assignment to support change management, reporting to Lohss.

"I am pleased that we have such a skilled and experienced group of people assuming these key roles on the governance team," Sistovaris says. "While this is a new type of organization for NiSource, our team is quickly ramping up, and will soon be engaged with employees across the organization in helping make our new relationship with IBM a success."

*Note: **Violet Sistovaris** discussed the new NiSource Governance Model during a teleconference available to all employees on July 14. [More information about the Governance Model, as well as other transformation information sessions, is available on MySource.](#)*

**July 13, 2005**

**Jeff Grossman**

## Transformation Summary

To listen to the audio portion of this presentation, click [here](#).

A new window will launch and the audio will immediately start playing. You may need to minimize that window to come back to the presentation.

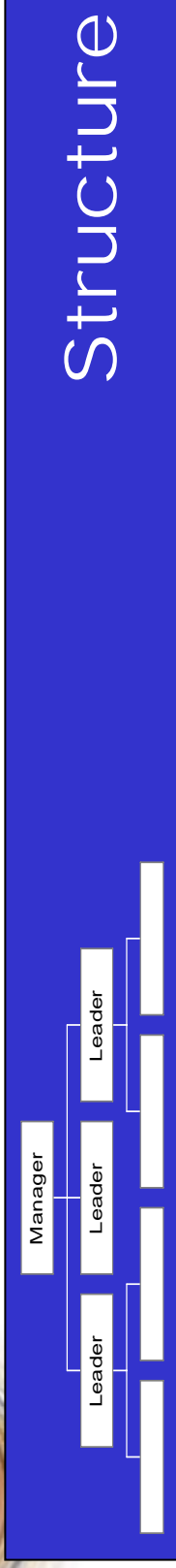
## Transformation Summary

- Consolidate, standardize and reengineer existing processes that are fragmented in today's environment
- Adopt best practices from within the Utilities Industry and from other commercial market segments
- Develop work processes that radically improve the cost profile and service levels of the in-scope activities
- Develop tools and technologies that will facilitate the migration to best practice

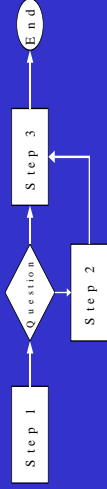
## Transformation Summary

- Retain strategic interface between business units and financial support
- Source transactional work geographically based on functional expertise and process
- Implement new analytic tools to improve financial planning and reporting processes
- Move to common platforms:
  - Financial system
  - O&M Budgeting
  - Data Warehouse
  - Time & Attendance

## Transformation Summary

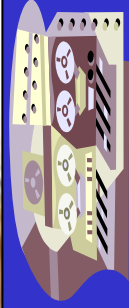


- Finance organization continues to be structured around financial reporting and financial planning functions
- Segment Controllers maintain responsibility for segment financial reporting
- Selected NiSource leaders for both transition and transformation



## Process

- Transformation Summary
- General accounting, fixed assets, budgeting, accounts payable and expense statement processing to be handled by IBM beginning Nov. 1, 2005
  - Payroll services transfer to IBM on Jan. 1, 2006
  - Common general ledger by Jan. 1, 2007
  - Accounts Payable, Payroll and other transactional activity will be processed through IBM's global service delivery network



## Transformation

### Transformation Summary

- Reduce monthly close by 1-2 days
- Accelerate movement to common platforms for financial systems
- Improved performance management and integration capabilities
- Increased productivity
- Reduced costs

# Transformation Summary

## Questions?

Dial #71 from your phone to ask a question

**July 12, 2005**

**Karen Lohss**

## Transformation Summary

To listen to the audio portion of this presentation, click [here](#).

A new window will launch and the audio will immediately start playing. You may need to minimize that window to come back to the presentation.

## Transformation Summary

- Consolidate, standardize and reengineer existing processes that are fragmented in today's environment
- Adopt best practices from within the Utilities Industry and from other commercial market segments
- Develop work processes that radically improve the cost profile and service levels of the in-scope activities
- Identify policy changes, for consideration by NiSource leadership, that will dramatically improve both the efficiency and effectiveness of in-scope activities
- Develop tools and technologies that will facilitate the migration to best practice

- ## Transformation Summary
- Continued movement toward centralized self-service model
  - Implement multiple Self-Service tools prior to 2006 (eHR, MSS, Peopleclick, eComp)
  - Assess and determine re-badge of HR Consultants & OD Consultants Q1 2006



LaNette Zimmerman  
EVP, Human Resources & Communications

Denisa Margraf  
Executive Assistant

Rob Campbell  
VP, Labor Strategy

Karen Lohss  
VP, Enterprise Transformation

Steven Barkauskas  
VP, Total Rewards

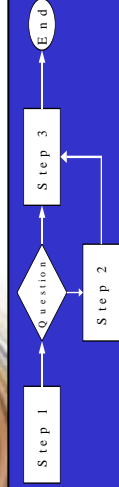
Barbara McKay  
VP, Communications

Teresa Smith  
Service Performance Manager

Joel Hoelzer  
VP, Human Resources West

Ed Santry  
VP, Human Resources East

## Transformation Summary



## Process

- 6-9 month implementation
- Self-service technology in place over next 4 months
- Costa Rica service center operational in November 2005



## Transformation

# Transformation Summary

- Manager Access to Real-Time
- Increased employee self-sufficiency
- Platform to drive consistent organizational change across NiSource

# Transformation Summary

## Questions?

Dial #71 from your phone to ask a question

## Employees invited to attend third and final round of outsourcing info sessions

Posted: 07-11-2005 at 08:01 Eastern Time

A third round of outsourcing information sessions has been scheduled for July 12-14. The 30-minute virtual sessions are open to all employees and feature NiSource leaders providing an overview of outsourcing and transformation plans for their areas.

The second series of meeting began on Wednesday, July 6, when PMO Lead, **Julie McElmurry** and Director of Customer Contact Centers, **Mike Davidson** presented the transformation plans for the Customer Contact Centers. On Thursday, July 7, Vice President of Information Technology, **Dick James** wrapped up the week's sessions by reviewing the plans for IT. These sessions are currently available for audio playback via Meeting Place and Sametime. Click the banner on the MySource Homepage for additional information.

Human Resources, Finance and Accounting and Governance will be featured in the July 12-14 sessions.

Session Topic	Presenter	Date/Time	Conference Call Information	Reserved Conference Rooms
Human Resources	Karen Lohss	Tuesday, July 12 12:30-1 ET	Meeting Place 1.888.481.1480 ID: 2008 Sametime Session Title: Human Resources	Charleston - Energy Room  Civic Center, Columbus - Auditorium  Merrillville - ISCA
Finance and Accounting	Jeff Grossman	Wednesday, July 13 12:30-1 ET	Meeting Place 1.888.481.1480 ID: 2009 Sametime Session Title: Finance and Accounting	Charleston - Energy Room  Civic Center, Columbus -

				Auditorium Merrillville - ISCA
Governance	Violet Sistovaris	Thursday, July 14 12:30-1 ET	Meeting Place 1.888.481.1480 ID: 2010 Sametime Session Title: Governance	Charleston - Room 1174 Civic Center, Columbus - Auditorium Merrillville - ISCA

**July 7, 2005**

**Dick James**

## Transformation Summary

To listen to the audio portion of this presentation, click [here](#).

A new window will launch and the audio will immediately start playing. You may need to minimize that window to come back to the presentation.

## Transformation Summary

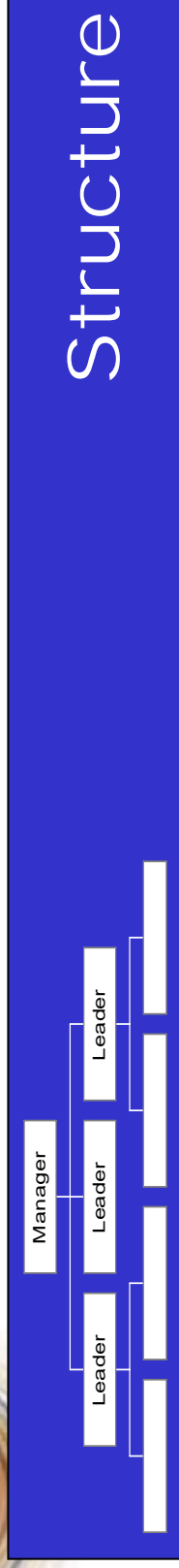
- Consolidate, standardize and reengineer existing processes that are fragmented in today's environment
- Adopt best practices from within the Utilities Industry and from other commercial market segments
- Develop work processes that radically improve the cost profile and service levels of the in-scope activities
- Identify policy changes, for consideration by NiSource leadership, that will dramatically improve both the efficiency and effectiveness of in-scope activities
- Develop tools and technologies that will facilitate the migration to best practice

## Transformation Summary

- IBM assumes responsibility for applications maintenance and development, infrastructure operations, voice and data networks, help desks and SCADA support
- IBM assists with but does not assume control of IT strategy & architecture, disaster recovery, regulatory compliance, and IT security
- Planned technology refresh for age/condition built into IBM solution
- Support for SCADA & gas management retained at NiSource locations
- Support of some applications migrated to IBM global resource locations

## Transformation Summary

- Marble Cliff Data Center migrated to Hammond
- Server consolidation
- Rationalized application portfolio
- Standardized & simplified IT architecture
- Significant process quality improvements
- Technology Help Desk located at IBM center in Toronto
- Navigator and CIS Help Desks remain at NiSource facilities



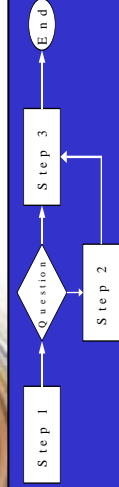
- Retained IT organization reports to Sr. VP, Admin Services
- Two Business Relationship Directors working directly with the business units to help plan and set strategic direction
- Two Service Performance Managers responsible for prioritization and service between IBM and NiSource



## Transformation Summary

- IT Architecture Manager to address technology direction
- IT Security Manager and analyst to set security policy
- IT Regulatory Compliance Manager and analysts to coordinate auditing and other regulatory compliance
- IT Disaster Recovery Manager to plan and coordinate DR activities

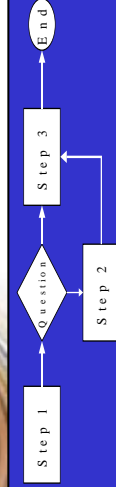
## Transformation Summary



## Process

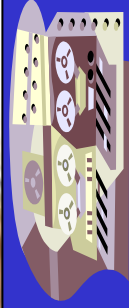
- Standard user request process
- Formalized service level agreements
- Standard methodology for change and enhancement activities to provide consistency and compliance
- Demand management/flexible resource model

## Transformation Summary



## Process

- Business case driven
- End user services including help desk and network support fully transitioned by the end of 2005
- Application maintenance transitioned by beginning of 2006 to IBM global locations
- Server consolidation ongoing over 18 months



## Transformation

# Transformation Summary

### IT-Specific Transformations:

- SOA enabled architecture
- SEI software capability maturity model (CMM)
- Application portfolio rationalization (2006)

### IT-Supported Transformations:

- Financial system consolidation (purchased)
- P-to-P supply chain (ASP hosted model)
- CCC & M2C integration framework (custom)
- New distribution WMS project (strategic funding)
- e-HR Portal (web-based tool)

# Transformation Summary

## Questions?

Dial #71 from your phone to ask a question



# Customer Contact Centers

**July 6, 2005**

**Mike Davidson and Julie McElmurry**

## Transformation Summary

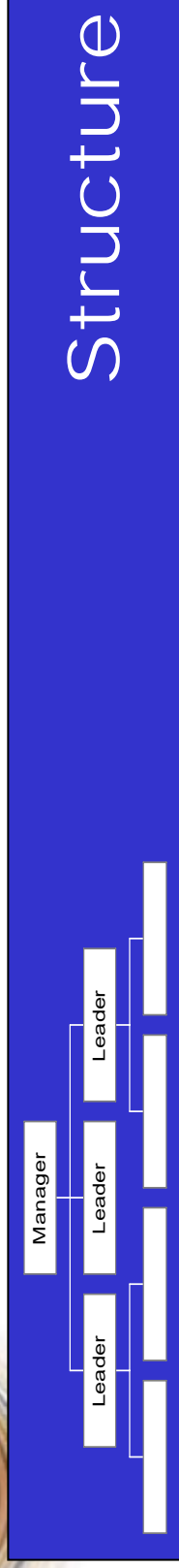
To listen to the audio portion of this presentation, [click here](#).

A new window will launch and the audio will immediately start playing. You may need to minimize that window to come back to the presentation.

# Goals of Transformation

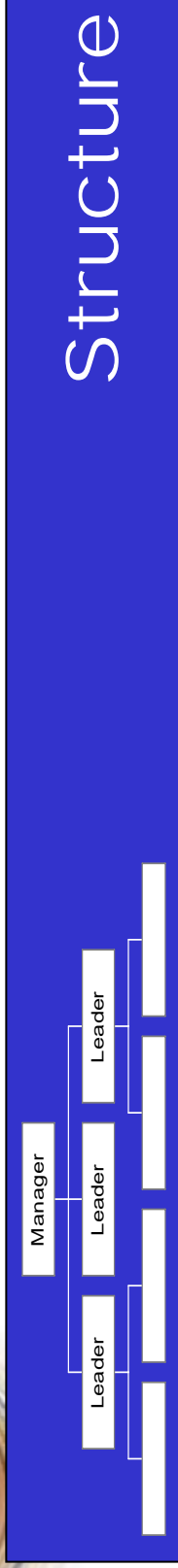
## Transformation Summary

- Consolidate, standardize and reengineer existing processes that are fragmented in today's environment
- Adopt best practices from within the Utilities Industry and from other commercial market segments
- Develop work processes that radically improve the cost profile and service levels of the in-scope activities
- Identify policy changes, for consideration by NiSource leadership, that will dramatically improve both the efficiency and effectiveness of in-scope activities
- Develop tools and technologies that will facilitate the migration to best practice



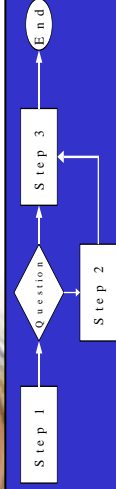
## Transformation Summary

- Single consolidated customer contact center located at the current Smithfield, PA location managed by IBM/Vertex
- OH & KY CCC consolidations
- No changes at this time involving the IN CCC
- MA CCC status based on negotiations



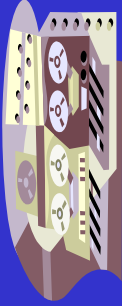
## Structure

- Retained CCC organization led by CCC Director who reports to Sr. VP, Admin. Services
- Quality Assurance Specialists, Trainers, Workforce Coordinators report to local CCC manager as of July 1, 2005
- Service Performance Manager responsible for relationship between CCC & NI, as well as NI & IBM/Vertex
- Two Cross-functional Integration Specialists serve as key contacts for business integration and cross-functional relationships
- Three Support Specialists provide additional centralized support (e.g. Call Aid maintenance, process improvements)



## Process

- # Transformation Summary
- OH CCC consolidates into Smithfield by 9-1-05
  - KY CCC consolidates into Smithfield by 12-1-05
  - Multiple contingencies planned to ensure capacity during transition:
    - Forecasts include added capacity to meet seasonal needs
    - NCO continued use for credit and for contingency capacity
    - Transition not dependent on transformation
    - CKY credit calls moving to NCO
    - Smithfield physical capacity supplemented with GE modular units, reconfiguration of CCC and potential build-out



## Transformation

### Transformation Summary

- Process improvements – call elimination, AHT reduction
- Self-Service (IVR, Web, more screen pops) – call elimination, AHT reduction
- Desktop portal – AHT reduction
- Operational improvements (online training, more intensive performance mgmt via tool usage)



# Customer Contact Centers

## Transformation Summary

### Questions?

Dial #71 from your phone to ask a question

## Employees invited to attend second round of outsourcing info sessions

Posted: 07-05-2005 at 05:15 Eastern Time

A second round of outsourcing information sessions has been scheduled for July 6-7. The 30-minute virtual sessions feature NiSource leaders providing an overview for all employees of outsourcing and transformation plans for their areas.

The series of meetings began on Tuesday, June 28, when Chief Financial Officer, **Mike O'Donnell** provided a summary of NiSource's [overall transformation business case](#). On Wednesday, June 29, **Chuck Shafer** discussed [plans for Meter to Cash](#), and **Tim Tokish** wrapped up the week's sessions with a [Supply Chain overview](#) on Thursday, June 30. The Meter to Cash and Supply Chain sessions are available for audio playback via Meeting Place and Sametime. Click the banner on the MySource homepage for more information.

Customer Contact Centers and Information Technology will be featured in the July 6-7 sessions. Additional sessions are being scheduled for the following week.

Session Topic	Presenter	Date/Time	Conference Call Information	Reserved Conference Rooms
Customer Contact Centers	Julie McElmurry and Mike Davidson	Wednesday, July 6  12:30 – 1 p.m. (EDT)	Meeting Place 1.888.481.1480 ID: 2006  Sametime Session Title: Customer Contact Centers	Charleston – Room 1050  Civic Center, Columbus - Auditorium  Southlake Complex, Merrillville - ISCA and ISCB
Information Technology	Dick James	Thursday, July 7  12:30 – 1 p.m. (EDT)	Meeting Place 1.888.481.1480 ID: 2007  Sametime Session Title: Information Technology	Charleston – Room 1178  Civic Center, Columbus - Auditorium  Southlake Complex, Merrillville - ISCA and ISCB

June 30, 2005  
Tim Tokish

## Transformation Summary

To listen to the audio portion of this presentation, click [here](#).

A new window will launch and the audio will immediately start playing. You may need to minimize that window to come back to the presentation.



# Transformation Strategy & Vision

## Transformation Summary

- Long Term Sustainable Growth – Without Undue Risk
  - Growth and expansion of NiSource's natural gas pipeline business
  - Broad regulatory and commercial initiatives premised on existing assets
  - Ongoing financial management of the corporate balance sheet
  - Continuing cost management

## Transformation Summary

### NiSource Today

- Multiple, Non-Standard Fragmented Processes
- Multiple Systems/Architectures
- Fixed Cost Structure with Varying Performance Levels
- Limited Shared Services
- Homogenous Resource Base
- Regulatory Driven Organizational
- Market Perception as Execution Challenged

### NiSource Future State

- Transformed to One
  - Common Best Practice Processes, Policies & Procedures
  - Common Systems & Flexible Architecture for an Integrated Enterprise
- On Demand Business with Variable Structure
  - Improved Costs & Service Levels
  - 1<sup>st</sup> Quartile
- Centralized & Global Services
- Core Focus
- Execution Capable
- Platform for Growth

Bay State Gas Company  
D.T.E. 06-31  
Attachment DTE-BSG-1-10 (C)  
Page 136 of 261

- Fully integrated financial systems (General Ledger, Payroll, Data Warehouse, Project Accounting)
- Standardized, stable and secure technology platform
- One procurement system to source materials more efficiently and at lower cost, giving us better specifications and controls
- Next wave of IVR\* and web enhancements; better call management tools and improved access to information in customer facing areas of Contact Centers and Meter to Cash
- Common desktop and improved tools to help people manage work

\* Interactive Voice Response



# Supply Chain Plan

## Transformation Summary

June 30, 2005

Bay State Gas Company  
D.T.E. 06-31  
Attachment DTE-BSG-1-10 (C)  
Page 138 of 261

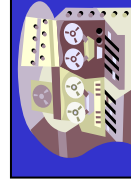
## Transformation Summary



- Outsourcing procurement of goods and services
- Strategic sourcing waves over next 18 months
- Assessment of fleet, warehousing and inventory management over next 9 months



- Consistent, standardized Supply Chain processes leveraging:
  - Knowledge
  - Sourcing processes, councils and methodologies
  - Policy and procedures
  - Contracts



## Technology

- Integrated technology platform
  - Desktop ordering
  - Front-end purchase controls
  - Procure-to-Pay
  - Data and information gathering

## Transformation Summary

- Reduce purchased spend through:
  - Improved total cost by 4% average
  - Increasing compliance
  - Reducing demand
  - Implementing leading practice category management
- Increased operating efficiencies through:
  - Automation of manual processes
  - Implementing electronic transactions
  - Consistent process and technology
- Comprehensive reporting and analytics
- Warehouse, fleet and inventory business case

# Transformation Summary

- Scope of Services
- Service Levels
- Fees
- Reports
- Managed and Assigned Agreements
- Key Vendor Personnel
- Data Privacy and Protections
- Personnel Transfers
- Transition Plan
- Service Locations
- Loaned Employee Agreement
- Governance
- Approved Subcontractors
- Software
- Disaster Recovery Planning (DRP) & Business Continuity Planning (BCP)
- Records Management Plan
- Gainsharing

## Transformation Summary

- Posting of open positions and redeployment process begins
- Start first sourcing wave – 3 waves over 18 months
- Begin to blueprint Fleet and Warehousing Assessment
- More Communications planned in the days and weeks ahead
  - MySource postings
  - Meetings with NiSource, IBM and Vertex leaders
  - Tower, Governance and Transformation updates
  - Ask your Manager, Human Resources or Communications



# Supply Chain Plan

## Transformation Summary

### Questions?

Dial #71 from your phone to ask a question

## Next steps in outsourcing transition outlined

Posted: 06-30-2005 at 10:40 Eastern Time

With July 1 upon us, many people have questions about what the outsourcing transformation means to day-to-day activities, both now and in the future. Here are some key points about what to expect next in the transition process:

### What happens on July 1?

In nearly all cases, it's **business as usual** on July 1. Although many people will officially become IBM employees on that day, they should continue to follow their normal schedule and carry out regular work activities. Unless otherwise informed, employees will have access to all the same tools, resources and facilities they normally would use.

Also, for all NiSource employees or customers who need services from any areas affected by the outsourcing transformation, it is also business as usual. Please continue to use the same phone numbers (i.e., IT help desk) and contacts that you use today for any questions or requests.

### What's next in the transition process?

Within each function, **transition teams** are being formed to manage the transfer of NiSource business processes to IBM. NiSource transition leaders assigned to the teams will be responsible for working with IBM counterparts to help make sure IBM receives the information it needs to deliver services and achieve milestones set in the agreement. This will require commitment and support from employees across the functions involved as well as throughout the NiSource organization. Details about transition activities and schedules will be communicated within each function.

### What is "Knowledge Transfer"?

In areas where entire work processes are being assumed by IBM, one of the most critical elements of the transition will be **knowledge transfer**. Knowledge transfer is, quite simply, the transfer of information from NiSource employees to the service provider's employees. The process ensures that IBM has essential information about workflow, procedures, documentation and resource requirements so it can deliver the service NiSource expects.

In some cases, the knowledge transfer will include on-site IBM team members "shadowing" employees as they do their jobs over the next several weeks or months. For example, an initial phase of observation will begin next week in some Finance and Accounting locations at Columbus and Merrillville related to the financial quarter close.

Face-to-face, on-site knowledge transfer will be used in some locations, while in other cases IBM will be using "desk-to-desk" knowledge transfer. This process will use computer technology to document and share workflow information without IBM team members needing to be on site. Web-enabled telephones also may be used so that IBM employees can ask questions.

## NiSource retained organization leaders announced

Posted: 06-30-2005 at 08:51 Eastern Time

Leadership assignments were announced today in NiSource's retained organization, which will provide ongoing strategic guidance for functions being outsourced to IBM.

"Although IBM will be responsible for day-to-day work in the outsourced areas, NiSource will continue to define overall policy and strategy, and approve changes in these functions," said Senior Vice President, Administrative Services, **Violet Sistovaris** who is leading both NiSource's retained and Governance organizations. "While the retained organization structure in each area is very small, those individuals play an important role in working with our NiSource business partners and IBM in satisfying business needs."

Leadership assignments in the retained organization reporting to Sistovaris include:

- **Dick James**, vice president, information technology
- **Chuck Shafer**, vice president, meter to cash
- **Mike Davidson**, director, customer contact centers
- **Tim Tokish**, vice president, supply chain management

Other previously announced retained organization assignments include:

- **LaNette Zimmerman** will continue to lead human resources, to report to President and CEO **Bob Skaggs**.
- **Jeff Grossman** in finance and accounting and **Scott MacDonald** in retail products and services will continue reporting to NiSource Chief Financial Officer **Mike O'Donnell**.

"I am delighted that we have such an experienced and knowledgeable group of people in these key roles," Sistovaris said. "These leaders and their teams have a short-term challenge of partnering with IBM on the transition process, and a long-term commitment to oversee transformation of their business functions in a way that ensures strategic alignment with NiSource's business needs."

*Note: This is part of a continuing series of MySource articles focusing on NiSource's outsourcing business transformation. Coming up next: More about NiSource's groundbreaking Governance organization.*

# Transformation Summary

June 29, 2005

To listen to the audio portion of this presentation, click [here](#).

A new window will launch and the audio will immediately start playing. You may need to minimize that window to come back to the presentation.



# Transformation Strategy & Vision

## Transformation Summary

- Long Term Sustainable Growth
  - Growth and expansion of NiSource's natural gas pipeline business
  - Broad regulatory and commercial initiatives premised on existing assets
  - Ongoing financial management of the corporate balance sheet
  - Continuing cost management

## Transformation Summary

### NiSource Today

- Multiple, Non-Standard Fragmented Processes
- Multiple Systems/Architectures
- Fixed Cost Structure with Varying Performance Levels
- Limited Shared Services
- Regulatory Driven Organization
- Market Perception as Execution Challenged

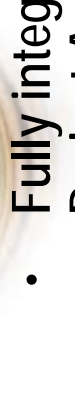
### NiSource Future State

- Transformed to One
  - Common Best Practice Processes, Policies & Procedures
  - Common Systems & Flexible Architecture for an Integrated Enterprise
- On Demand Business with Variable Structure
  - Improved Costs & Service Levels
  - 1<sup>st</sup> Quartile
- Centralized & Global Services
- Core Focus
- Execution Capable
- Platform for Growth

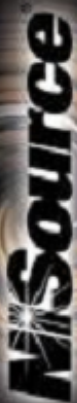
Bay State Gas Company  
D.T.E. 06-31  
Attachment DTE-BSG-1-10 (C)  
Page 148 of 261

## Transformation Summary

- Consolidate, standardize and reengineer existing processes that are fragmented in today's environment
- Adopt best practices from within the Utilities Industry and from other commercial market segments
- Develop work processes that radically improve the cost profile and service levels of the in-scope activities
- Identify policy changes, for consideration by NiSource leadership, that will dramatically improve both the efficiency and effectiveness of in-scope activities
- Develop tools and technologies that will facilitate the migration to best practice

- 
- Fully integrated financial systems (General Ledger, Payroll, Data Warehouse, Project Accounting)
  - Standardized, stable and secure technology platform
  - One procurement system to source materials more efficiently and at lower cost, giving us better specifications and controls
  - Next wave of IVR\* and web enhancements; better call management tools and improved access to information in customer facing areas of Contact Centers and Meter to Cash
  - Common desktop and improved tools to help people manage work

\* Interactive Voice Response



# Meter to Cash Plan

## Transformation Summary

June 29, 2005

Bay State Gas Company  
D.T.E. 06-31  
Attachment DTE-BSG-1-10 (C)  
Page 151 of 261

## Transformation Summary



- Consolidate Key Operations into an IBM Meter to Cash center of excellence in Columbus, Ohio
- Process Billing Exceptions & Back Office from domestic and global centers of excellence
- Re-Badge employees where appropriate
- Offers to employees to relocate where appropriate
- Severance notifications in some areas



- Standardize process at the execution level
- Automate existing manual steps
- Leverage analysis of customers' behaviors to drive payment habits and reduce bad debt
- Expand the customer's usage of electronic payments and billing
- Utilize Universal Queue to work exceptions and back office
- Improve customer satisfaction by providing increased payment and billing channels



- Common Front-End Desk Top for CIS and DIS
- Accelerated IT Initiatives already identified by MTC
- Increase electronic bills and auto pay by 25% & 20% respectively
- Reduce billing exceptions by 25%



## Governance Manages Critical Contract Schedules

# Transformation Summary

- Scope of Services
- Service Levels
- Fees
- Reports
- Managed and Assigned Agreements
- Key Vendor Personnel
- Data Privacy and Protections
- Personnel Transfers
- Transition Plan

- Service Locations
- Loaned Employee Agreement
- Governance
- Approved Subcontractors
- Software
- Disaster Recovery Planning (DRP) & Business Continuity Planning (BCP)
- Records Management Plan
- Gainsharing

- # Transformation Summary
- IBM/Vertex Town Hall Meetings Planned for June 22-24
  - Leadership Council Meeting for June 23-24
  - Responses Due to NiSource and IBM on June 24
  - More Communications planned in the days and weeks ahead
    - MySource postings
    - Meetings with NiSource, IBM and Vertex leaders
    - Tower, Governance and Transformation updates
    - Ask your Manager, Human Resources or Communications
  - Posting of Open Positions and Redeployment Process

# Questions

**Source**

## Transformation Summary



Dial #71 to ask a question

## Outsourcing Business Case & Our Core Realities

To listen to the audio portion of this presentation, click [here](#). (The meeting starts about 4:57 into the recording)

A new window will launch and the audio will immediately start playing. You may need to minimize that window to come back to the presentation.

Mike O'Donnell  
June 27, 2005

Bay State Gas Company  
Docket 06-31  
Attachment DTF-BSG-04-10 (C)  
Page 155 of 261

# Transforming to One

## NiSource Today

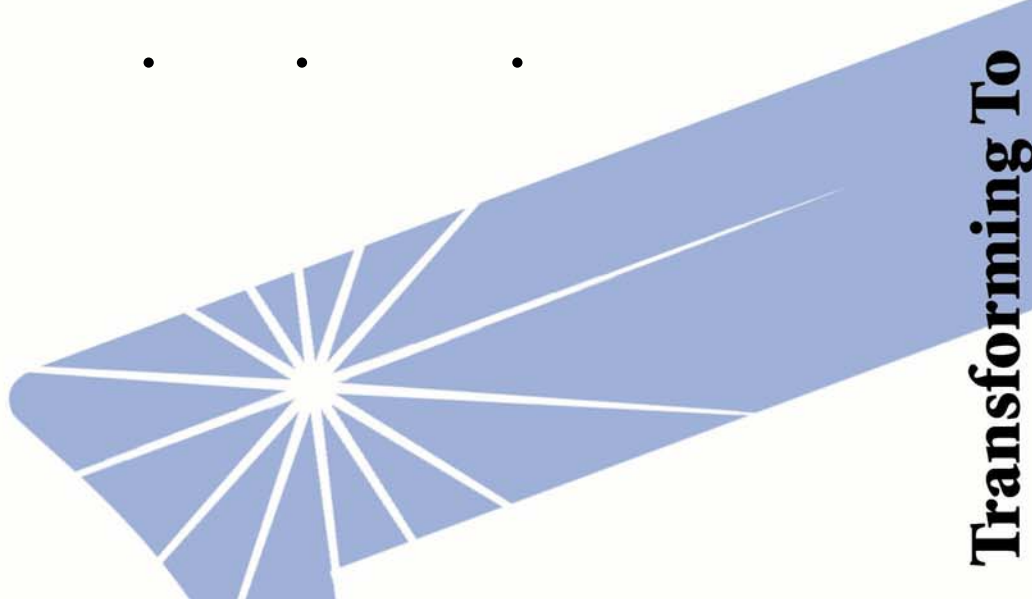
- Multiple, Non-Standard Fragmented Processes
- Multiple Systems/Architectures
- Fixed Cost Structure with Varying Performance Levels
- Limited Shared Services
- Regulatory Driven Organization
- Market Perception as Execution Challenged

## NiSource Future State

- Transformed to One
  - Common Best Practice Processes, Policies & Procedures
  - Common Systems & Flexible Architecture for an Integrated Enterprise
- On Demand Business with Variable Structure
  - Improved Costs & Service Levels
  - 1<sup>st</sup> Quartile
- Centralized & Global Services
- Core Focus
- Execution Capable
- Platform for Growth

## Steps We've Taken

- Disposed of Non-Core Assets
  - Water Company, CNR, Primary Energy
- Reduced Dividend, Sold Common Equity
- Paid Down Over \$2 Billion of Debt
  - Stable Credit Ratings
- Reset 05 Earnings Expectations
  - Recent Core Revenue Reductions



**Transforming To**

- **\$1.2 Billion in Annual O&M Spend**
  - \$545 Million Annual Depreciation Expense
- **\$25-\$30 Million in Annual, Predictable “Cost Creep”**
  - Wage Increases
  - Benefits Cost Increase
  - Depreciation
- **Must Meet “Unplanned” Expenses**
  - Overtime for Outages, Increases in Bad Debt, MISO Charges
- **\$500-\$600 Annual Capital Expense**
  - 25% of CAPEX is Revenue Producing
- **\$20 Million In Revenue Resulting From Organic Growth**
  - \$6.5 Billion in Gross Revenues
  - \$3.1 Billion in Net Revenues

## 2005: Building A Platform For Long Term Sustainable Growth

- Set Market Expectations That Transformation Will Result in Savings of \$30-\$40 Million a Year
- Approximately 3% of Annual O&M
- Disciplined Process With IBM to Achieve Best Decisions
- \$530 Million in Savings Spread Over 10 Years of Contract
  - Over \$120 Million Cost to Achieve

## Contract Highlights

- **Services Provided**
  - Contact Call Center, Sales Center, Work Management, Finance & Accounting, Meter to Cash, Human Resources, Information Technology & Supply Chain
- **Service Locations**
  - Onshore, Offshore
- **Pricing Methodology**
  - Fixed/Variable Pricing based on resource usage. IBM is subject to service credits and/or penalties based on performance standards.
- **Benchmarking**
  - After 3 years, any of the service categories can be benchmarked at NiSource's expense. Benchmarking can trigger price reductions.
- **Termination Provisions**
  - NiSource may terminate entire agreement or any of the 8 service categories for cause or convenience, subject to payment of termination fees.

# 10 Year Financial Summary

	Annually (\$ Millions)	10 Year Projection (\$ Millions)
<u>Current Base Costs</u>		<u>Total</u>
NiSource Base Case O&M Cost	312.6	3125.7
NiSource IT Capital Spend	27.5	275.0
Total Cost to Deliver Service	340.1	3400.7
<u>Future Cost to Deliver Services (Base Fees)</u>		
Service Provider Core Fees		1572.0
Service Provider Transformation Fees		0.0
Total Service Provider Fees		1572.0
NiSource Retained Costs		
Salary & Related		907.5
Outside Services		104.8
Employee Expenses		29.6
Facilities, Telecom & Other		182.4
Additional Retained Costs		71.6
Total Retained O&M Costs		1295.9
Future Cost to Deliver Service		2867.9
Core Savings		532.8
Costs to Achieve		
Costs to Achieve		121.1
Project Costs		4.5
Sales & Use Tax		11.4
Total Costs to Deliver Services		3004.9
Net Core Savings		395.8

# Questions ??

Dial #71 on your phone to ask a question.

**Transforming To**

## Skaggs: IBM deal brings new technology, sharpened business focus

Posted: 06-22-2005 at 15:31 Eastern Time

NiSource's collaboration with IBM will result in new technology and process improvements while allowing NiSource to further focus on its core strengths of providing safe, reliable utility and pipeline services to customers.

That was a key message shared by NiSource President **Bob Skaggs** during a conference call with company managers Tuesday afternoon.

"I want to emphasize that, for NiSource, this is indeed a broad transformation of the way we do business," Skaggs said. "It will enable us to access new technology and service capabilities for our company, and state-of-the-art service for our customers, while we re-deploy capital toward growth opportunities."

In discussing the need for transformation, Skaggs explained that NiSource's core day-to-day business generates normal revenue growth of about \$20 million per year, net declining usage. Meanwhile, the company experiences about \$25-30 million per year in cost increases, including such things as wage and benefits cost increases and depreciation.

"Our financial challenges are not unique within our industry, and in many ways we are better positioned than many of our peers. We have great assets, great people, and strong, balanced plans to deal with the challenges. But we need to move quickly, and IBM can help us deliver on our plan." Skaggs added.

Skaggs listed several examples of benefits NiSource and its customers will receive from the company's collaboration with IBM:

- Fully integrated financial systems to speed data gathering and analysis
- A standardized, stable and secure technology platform that can grow in a cost-effective manner
- A new procurement system to source materials more efficiently and at lower cost
- The next wave of voice recognition, Web enhancements, call management tools and information systems to support customer facing areas of Contact Centers and Meter to Cash

Skaggs acknowledged that the change will have impacts on employees, and reminded leaders that NiSource's decision to outsource was not a reflection on the performance of any group or individual affected by this change.

"I know that each of us will be supportive of one another as we work through this transition. I believe that, in the balance, it's the best business decision for NiSource. It's going to position us for sustainable future growth and ensure continued success in our mission to provide safe, reliable energy services."

A series of communications are planned for the next several weeks to provide employees with details about the transition and transformation plans. Special meetings for employees who received an employment offer from IBM also began today.

Skaggs said he also plans to visit locations around the company during the coming weeks to talk about this and other NiSource strategies for the future. Watch MySource for more information about these and other communications.

## **New organization structure announced**

### ***Strong governance model in place***

Posted: 06-22-2005 at 05:45 Eastern Time

NiSource on Monday (6/20) signed a 10-year contract with IBM providing for IBM or its subcontractor's operation of various business support activities in finance and accounting, information technology, human resources, meter to cash, contact centers, sales centers and supply chain. The contract takes effect on July 1, 2005.

"While the day-to-day operation of some processes within these functions will become IBM's responsibility, NiSource will continue to develop strategy and policy for these services and will have responsibility for the transition plans and transformation projects within these areas," says **Bob Skaggs**, NiSource president. "In addition, we have developed a robust governance model, new to NiSource, to ensure realization of the contract's value to all stakeholders."

The model provides for defined processes that monitor the overall contract, provide for rapid resolution of issues and enables consistent direction by NiSource to IBM. Senior Vice President, Administrative Services, **Violet Sistovar** is leading both the retained and governance organizations. Also reporting to Sistovar are **Gail Harowski**, vice president, facilities and asset protection, and **Tom McKain**, special projects. Sistovar reports to Skaggs.

### **Retained Organization**

The following leadership positions will exist in the retained organization and will report to Sistovar:

- Vice president, information technology
- Vice president, meter to cash
- Director, customer contact centers
- Vice president, supply chain management

**LaNette Zimmerman** in human resources will continue to report to NiSource Chairman and CEO **Gary Neale** and **Jeff Grossman** in finance and accounting and **Scott MacDonald** in retail products and services will continue reporting to NiSource Chief Financial Officer **Mike O'Donnell**. As was communicated previously, the work management review has been put on a separate track from outsourcing with a six to nine month period outlined for the development of a blueprint plan for proceeding with the review.

### **Governance organization**

The newly developed governance model brings into a single organization all the related functions necessary to realize the value of the business process transformation collaboration with IBM.

"From managing the elements of the 2,000-page contract to realizing the service agreements, to ensuring *no surprise* communications between the parties, and defining decision-making roles, our governance model represents a structured means for balancing all our needs," says Sistovar. "We fully expect to have a smooth and beneficial collaboration with IBM, and this governance model is designed to facilitate the processes and roles to make that happen."

In addition to the functional leaders, additional leadership roles in the governance organization include **Sherry Gavito**, vice president, governance. Gavito will have overall responsibility for the Governance Center of Excellence, which includes contract compliance, service quality, and the program management office (PMO). Positions also reporting to Gavito are PMO leads, financial manager, contract and compliance manager and service quality manager.

**Karen Lohss**, will be vice president, enterprise transformation and lead for the Transformation Center of Excellence. Lohss has overall responsibility for change management. Positions reporting to Lohss are change management consultant, communications manager and change management specialist.

Organization charts outlining these positions will be posted to *MySource* once the notification process is complete.

## Questions and Answers

*Day-1 Information Regarding NiSource's New Agreement with IBM and the Transition Process*

### The Business Case

#### **Why did NiSource make the decision to outsource?**

Our collaboration with IBM will enable NiSource to transform our business to further focus on our core strengths of providing safe, reliable utility and pipeline services to our customers. It will enable us to access new technology and service capabilities for our company and our customers, and re-deploy capital toward growth opportunities.

#### **How does outsourcing fit with NiSource's overall strategic plan?**

This long-term relationship with IBM is a key component of NiSource's balanced four-part plan to establish a platform for long-term, sustainable growth. NiSource is focused in 2005 on pursuing growth opportunities in its extensive natural gas pipeline and storage system, implementing regulatory and commercial initiatives in its distribution business, continuing to strengthen its balance sheet through prudent financial management, and identifying innovative ways to manage overall costs and free up additional capital for investment in its core gas and electric operations. Working with IBM will help us achieve these goals of delivering basic support activities while freeing us to focus on our strategic business priorities.

#### **What are some specific benefits NiSource and its customers will see from outsourcing?**

Examples of specific benefits of our collaboration with IBM will include:

- Fully integrated financial systems (General Ledger, Payroll, Data Warehouse, Project Accounting)
- Standardized, stable and secure technology platform
- One procurement system to source materials more efficiently and at lower cost, giving us better specifications and controls
- Next wave of technology and web enhancements; better call management tools and improved access to information in customer facing areas of Contact Centers and Meter to Cash
- Common desktop and improved tools to help people manage work

#### **Will outsourcing affect customer service or emergency response time?**

Customer service, safety and reliability are critical priorities for NiSource, and we will not compromise them as part of this effort. The agreement with IBM includes specific requirements regarding maintaining customer service standards.

#### **Why did NiSource choose IBM?**

Based on the operational solutions IBM developed, its commitment to quality customer service, its shared values with NiSource, the opportunities for NiSource employees and the pricing strategy, we selected IBM.

## About NiSource's Agreement with IBM

### **What functions and services are included in the agreement with IBM?**

As part of this agreement, IBM will operate a broad range of business support functions for NiSource, including processes within the human resources, finance and accounting, supply chain (procurement), customer contact, meter-to-cash (billing and collections) and information technology areas. The agreement will include a broad array of transformational consulting services and emerging technology expertise, as well as a unique approach to governance between the two companies to rapidly drive value across a multi-process business transformation outsourcing solution. In addition, NiSource and IBM are committed to continuous improvement of levels of customer service, business efficiency and functional integration at NiSource.

### **When will IBM begin providing services to NiSource?**

Transition of services to IBM will begin immediately. While IBM will be responsible for providing service to NiSource beginning July 1, 2005, transition will be completed over the course of the coming months.

### **What is the length of the contract?**

Ten years. This is a standard contract length for this type of relationship in order to permit the realization of the benefits from the transformed processes.

### **Will work be done offshore?**

IBM has an extensive global service delivery network with approximately 329,000 employees worldwide. Our agreement with IBM includes having work done here in the U.S. (including all customer-facing activities) and at other locations in IBM's global network. More information about specifics of the service delivery plans will be available in the coming days.

### **How will we get more detailed information about the transformation?**

Our first priority today has been to communicate with employees who are directly affected by the change. During the coming days there will be a variety of opportunities for all employees to learn specifics about the business transformation and transition process. Watch for more information coming soon.

### **We have heard about cases where outsourcing has not been successful. How will this effort be different?**

We believe success in working with any service provider begins with carefully and clearly defining content of the work and related processes, service level expectations, as well as the processes both the provider and the company will follow to ensure ongoing service quality and responsiveness. That is why we engage in a disciplined process to define our specific work and service requirements for each function and developed a comprehensive governance process to manage this relationship and help make our collaboration with IBM successful.

### **Will there be additional reorganization beyond outsourcing, such as in other groups, etc.?**

NiSource's goal is to create the best, most well positioned organization possible. As always, we will continuously strive to improve the efficiency and effectiveness when it makes good business sense to do so.

### **What will NiSource do with the savings it is achieving from this effort?**

NiSource has a balanced plan to achieve long term sustainable growth and the savings generated from outsourcing will free up capital to invest in growth opportunities in our utility and pipeline businesses -- a key component of our plan. It is also important to note that the savings being generated from the

functions we are transforming will account for a relatively small portion of the total \$1.718 billion in O&M and capital we spend annually to operate our businesses.

**Did the company consider potential data security issues around outsourcing?**

Safety and security of our data and systems is and continues to be a high priority. The agreement with IBM specifically addresses these issues, and we are confident that IBM can deliver on this commitment.

**How will IBM be measured on its success?**

IBM's success will be measured by achieving the agreed upon service levels, which include numerous service quality metrics, realization of the cost reduction benefits, and continuing a strong relationship

**Does IBM do a lot of outsourcing like this?**

IBM's Global Services is the world's largest business services company and has been providing outsourcing services to industry-leading clients for more than a decade. With more than 175,000 professionals working with clients in 170 countries, IBM Global Services helps companies develop business and IT strategies, optimize business processes and manage business and information systems. Major industry analysts, such as Gartner, IDC, and Forrester, recognize IBM Global Services as a world leader.

One area of key strategic focus for IBM is Business Transformation Outsourcing (BTO), a service that delivers faster, more successful, and enduring business transformation. As a BTO service provider, IBM commits to the continuous strategic change and operation of the client's business processes – integrating people, process transformation and technology innovation. Leading enterprises across a range of industries have turned to IBM to implement the large-scale business process changes needed to support growth, cut costs, manage risk, increase organizational agility, and develop the necessary capabilities to be competitive.

**Why is IBM using a subcontractor for some processes? Which processes and why?**

For NiSource, IBM has selected Vertex to assist in the transformation at NiSource for Customer Contact Centers and Meter-to-Cash, including Remittance Processing and Credit and Collections. Vertex is one of the world's leading Business Process Outsourcing (BPO) companies in the energy and utility market with ten years experience in the sector. Combined with IBM's technology and business transformational skills, the team makes for a powerful force in the market.

**Who is Vertex? What is the company's background?**

Vertex was created in 1996 from the merger of two regional Utilities serving Gas, Electricity and Water customers in the North West area of England. United Utilities created Vertex at the time to integrate and consolidate the non-core but essential Meter to Cash, IT and Supply Chain services that supported its regulated business, to prepare its Customer Service operations for market deregulation in 1998 and to deliver substantial merger cost savings. Vertex is now an international business process outsourcer with particular expertise in customer management. The company develops and implements a range of outsourcing solutions for many leading organizations in the commercial, financial services, utility and public sectors. Starting with 2,500 transferred staff when it was created; Vertex now has more than 10,500 employees in locations across the UK, North America, Europe and India. Vertex remains wholly owned by United Utilities. For more information, see [www.vertexoutsourcing.com](http://www.vertexoutsourcing.com)

**Does Vertex do a lot of outsourcing like this?**

Over 50% of Vertex revenue is generated from the Energy and Utility Sector and 100% of Vertex revenue is generated from Business Process Outsourcing with a specific emphasis on Customer Management. Vertex is one of the UK's largest Call Center providers and has won numerous Industry Awards for its services including the 2004 Best Outsourcing Partnership with Westminster City Council.

## Transition/Staffing

### **Who made the staffing decisions? NiSource or IBM/Vertex?**

NiSource made the decisions regarding its organization. IBM and Vertex made their own decisions regarding their employment offers.

### **If an employee receives an offer from IBM, does that mean they will not have an offer from NiSource?**

In most instances, when an employee receives an offer of employment from IBM, it indicates that the employee will not be receiving an offer from NiSource.

### **Is a severance being offered to released employees?**

In accordance with the applicable Severance Policy, severance will be available to NiSource employees who do not secure comparable employment with NiSource, IBM or Vertex.

### **Is outplacement assistance being provided to those employees?**

Yes. NiSource has retained Lee Hecht Harrison, a prominent global career management services company, to assist employees who are released. Employees who are released will receive information about their services. Typical services include resume writing support, interview skills building, and job search support.

### **Will the Lee Hecht Harrison 2-day workshop for severed nonexempt employees be offered during Company time?**

We will schedule offerings of the workshop throughout the year. The workshops will be offered on back-to-back Fridays & Saturdays and you may take company time to attend the Friday portion of the workshop.

### **If I am notified that I will be released and I resign before my separation date, do I still get severance?**

If an employee voluntarily resigns prior to his/her last day as an active employee, the employee disqualifies himself/herself from receiving severance.

### **Can a former NiSource employee bid on available NiSource positions after accepting a position with IBM?**

No. The individual has accepted a position with IBM and is not eligible to bid on open positions within NiSource.

### **Can an employee scheduled for severance bid on available NiSource positions before their severance date?**

Yes.

### **If I'm employed by IBM, can I bid on a NiSource job?**

Yes, if you are currently an IBM employee and bid on a role that is posted externally. If the job is posted internally, you would not be eligible to apply.

### **If I have been severed, can I bid on NiSource positions after my separation date?**

You will not be eligible to bid on NiSource positions through our internal posting and bidding program after your separation date. You may apply for NiSource positions as an external applicant by viewing any external job opportunities that are posted on the external NiSource Internet website, following the same application procedures as other external candidates. If you seek re-employment with any NiSource

Company and are subsequently re-hired, then a pro-rata portion of your severance payment must be repaid as of the rehire date as a condition of re-employment.

**If I have been offered a severance package and I am eligible to retire, can I retire and also receive my severance payment?**

Yes, as long as you remain an active employee until your separation date or are excused by management at an earlier date.

**What is the status of contract employees?**

All contract employees are being handled on an individual basis.

**Where will the main work locations be for people offered positions with IBM or Vertex?**

In the vast majority of cases, employees will continue working at the same locations where they work today.

**What is the time line for employees offered positions to begin working for IBM/Vertex?**

Offer letters from IBM or Vertex will specify a start date. The earliest start date will be July 1, 2005.

**How do I know if the job I am offered by IBM or Vertex represents a 'comparable position' under the terms of the NiSource Severance Policy?**

IBM and NiSource have contractually agreed that any offers of employment extended by IBM to NiSource employees will be comparable to the employee's current position based on the definition of "comparable employment" in the NiSource Severance Policy.

**Will NiSource help with the transition of employees who are released or accept IBM or Vertex offers of employment?**

- NI has agreed to provide to employees, who have a minimum of 3 years of service with NiSource and who are released or offered a position with IBM or Vertex, full vesting in their pension plan in the retirement benefit that they have accrued up to the date of their release or their transfer to IBM or Vertex.
- For employees who are at least 50 years of age with a minimum of 5 years of service at the time of their release or transfer to IBM or Vertex, NiSource will provide a "grow-in," enabling them to reach the age 55 and 10 years of service required to be eligible for retiree health care and retiree life insurance.

**How will employees know if they qualify for these enhanced benefits?**

Employees' manager and HR will individually notify employees who fall into any of these categories during the notification process.

**In the event my job is outsourced, am I eligible for severance if IBM or Vertex offers me a position?**

NiSource and IBM have contractually agreed that all offers of employment from IBM or Vertex made to NiSource employees will be comparable based on the definition in the NiSource Severance Policy. Therefore, if an employee receives a job offer from IBM or Vertex, the employee is not eligible for severance.

**If IBM or Vertex offers me a position, may I choose severance rather than accept the position I'm offered?**

No.

**If IBM or Vertex offers me a job that requires a move, do I get severance if I decline the offer?**

If the job offered is located more than 50 miles from an employee's primary work location, it is not considered comparable employment. In this example, the employee would be eligible for severance. Attachment D-E-BG-1-10 (C) Page 62 of 261

**How will unpaid vacation be handled?**

Unused vacation will be paid to the employee in their last paycheck or shortly thereafter.

**Will NiSource pay out unused floating holiday time?**

Rebadged and severed employees who have floating holidays remaining, will be allowed to recharacterize previously taken vacation as floating holidays before termination of employment with NiSource.

**Will rebadged employees retain the purchase card (P-Card) and American Express corporate cards?**

There will be a transition to IBM expense processing for all rebadged employees. This transition process was reviewed during the IBM sign-on sessions.

**Will I retain the hardware (i.e. cell phone, blackberry, pager, laptop) that I currently use to perform my job?**

IBM is in the process of taking inventory and will be working with NiSource to ensure that employees have the proper equipment to perform their job.

**At present I have access to several NiSource facilities. Having this access allows me to perform my job. Will I continue to have access to these same facilities as an IBM employee? Also will I have access to all the equipment that I currently utilize to do my job?**

As an IBM employee you will continue to have access to the same NiSource facilities needed to perform your job. Regarding tools, IBM is currently taking inventory and addressing it with NiSource.

**Will an employee who has signed a severance agreement, then is offered employment with IBM, still be eligible for severance?**

Yes, the employee will be given the choice between the IBM offer of employment and the severance opportunity. However, once an employee accepts an offer of employment from IBM, severance eligibility is withdrawn.

**I don't participate in the NiSource health benefits program today, but my severance letter indicates that my termination of employment is a qualifying event under COBRA. Does this mean that I will be given the opportunity to participate in NiSource's medical, vision, and dental benefits plan for 18 months if I choose to do so now?**

Yes.

**I have received a severance package, but I am eligible for a performance progression award before my termination date. Will I be able to receive that progression award, and will my new rate of pay be used to recalculate my severance payment?**

We will continue to apply our current compensation practices, including performance progression rewards up to your separation date. The severance will be recalculated.

**Will exit interviews be conducted with those employees leaving NiSource and joining IBM? If so, will topics such as pension, retirement, flexible spending, and 401K be addressed during these sessions?**

No.

**Can a severed or rebadged employee who is eligible for the newly offered "grow-in" for retiree health care and retiree life insurance, elect to participate in NiSource's retiree medical plan as early as age 55, even if he/she is employed elsewhere at that time and is not retired from employment?**

Yes. For severed employees, this benefit will be provided if the employee signs the Letter Agreement. For rebadged employees, this benefit will be provided if the employee accepts the job offer from IBM.

**Can an individual initiate and commence retirement without commencing post-retirement medical benefits?**

Yes. An employee can waive coverage under the post retiree medical plan. This is an annual waiver of coverage.

**How soon will I receive my severance check after my separation date?**

Your severance check will be sent within 7 – 10 business days after you sign the General Release on your separation date.

**Can I bank vacation and/or floating holidays before I am separated from NiSource? If so, what is the process?**

You may bank unused vacation and/or floating holidays if you will be age 45 or older on your day of separation. You need to submit a request stating the number of hours to your Human Resources Consultant in writing (e-mails are acceptable).

**Can I apply my banked vacation to my 401(k)?**

Yes. Payout of banked vacation can be contributed to your 401(k) in the same contribution percentage as your current 401(k) election.

**Will vacation time banked from previous years be paid out?**

Yes, banked vacation will be paid out in the final paycheck.

**Are educational reimbursement obligations forgiven for employees who are severed or rebadged?**

Yes.

**How will flexible spending accounts be treated?**

Employees will not lose dollars that they have contributed to their NiSource flexible spending accounts. These dollars will still be made available for use for services rendered before your termination date. Specifically for the Health Care Flexible Spending Account, if you leave NiSource Inc. before the end of the plan year, December 31, the expenses you incurred while working at the company are eligible for reimbursement.

**Can tax liability for your severance payment be deferred?**

No.

**Will employees that are currently on LTD be receiving severance payments?**

No severance payments will be given to employees on LTD.

**What should I do if the media or any other external group contacts me?**

All calls from the media should be directed to the Corporate Communications department or your local Communications manager for a response.

**Why don't employees hear about this type of announcement before a news release is issued?**

Whenever information has bearing on our future earnings guidance and business plans, we must follow financial disclosure rules, which state that we can't inform one investor group (employees, for example) sooner than any other group. Given those restrictions, we take steps to try to communicate this information to employees as quickly as possible once it is officially made public to the entire investor community and our financial disclosure obligations are met.

**Where should I go if I have more questions about this announcement?**

A variety of communications are planned to help provide information for leaders and employees during the coming days and weeks. Any questions you have that are not addressed on MySource, in various meetings, or by your manager or supervisor should be directed to a NiSource HR Consultant or Communication Manager.

**A message from Bob Skaggs regarding the definitive agreement with IBM**

Posted: 06-21-2005 at 08:55 Eastern Time

Dear Colleague:

Late yesterday, we signed a definitive agreement with IBM to provide business support functions at NiSource. Moments ago, we fulfilled financial disclosure requirements by issuing a [news release](#) informing all investor groups of our news simultaneously. Now, I would like to share a message directly with you on this important topic.

Starting July 1, 2005, IBM will operate a broad range of business support functions for NiSource, including processes within Human Resources, Finance and Accounting, Supply Chain, Customer Contact Centers, Meter to Cash, Retail Sales and Information Technology. More details about each of these business support activities will be available later in the week.

Our first priority this morning, however, is to advise individual employees within these work groups how this transformation effort will affect their jobs. Some employees will be retained as NiSource employees; some will be offered a new position with IBM; and some will be scheduled for release with a severance package. The goal is for each individual to know his or her personal circumstances by mid-afternoon. Most will receive additional detailed information from NiSource or IBM over the next few days.

It is important to remember that NiSource's decision to collaborate with IBM is not a reflection on the performance of any group or individual affected by this change. In fact, our company has a long history of adapting to new technologies and continually finding new ways to efficiently and effectively accomplish our work. In that respect, our collaboration with IBM is an important progression in our efforts to remain competitive and achieve our platform for long-term, sustainable growth. This agreement will enable us to access new technology and service capabilities for our company and state-of-the-art service for our customers, and redeploy capital toward growth opportunities. Working with IBM will allow us to focus on growing our business while providing safe, reliable service to our customers.

I encourage you to read today's *MySource* postings and watch for more information coming soon. And please understand that achieving the benefits of this effort will require some level of change, support and commitment from everyone. In fact, our greatest asset over the next several months may be our demonstrated ability to stay focused and adapt to this change.

Thank you for doing your best to support this transformation as we move forward. I firmly believe this is about preserving long-term opportunities by keeping our business competitive and building a strong foundation for growth in the future.

Sincerely,

**Bob Skaggs**  
NiSource President

## Technology, process improvements key part of IBM discussions

Posted: 06-15-2005 at 14:58 Eastern Time

Documenting plans for major technology and service process improvements across NiSource is an important focus of the ongoing negotiations with IBM on a long-term business transformation and outsourcing services agreement.

That was one of the messages NiSource Leadership Council members received in an update on the business transformation from President **Bob Skaggs** and the NiSource project team in Merrillville today.

"Our negotiating team and their counterparts from IBM are working through a very detailed process to make sure every aspect of this business arrangement is carefully considered and documented," Skaggs told the group. "NiSource's collaboration with IBM is critical to the company remaining competitive and establishing a platform for long-term, sustainable growth."

Skaggs said the agreement is expected to include a broad array of transformational consulting services and technology expertise from IBM.

"Our collaboration with IBM will provide for dramatic new technology and process improvements across the company," Skaggs said. "It will help us hold the line on costs and free up capital for investing in our infrastructure. And it will allow us to focus our energies on growing this business and providing safe, reliable service to our customers."

Skaggs also expressed appreciation for employees' continued focus on customer service and safety as NiSource pursues this and the other important elements of its business plan. "I know people are eager for information, and we intend to let people know the outcome of this process by the end of June," Skaggs said.

**Outsourcing Q&As related to transition process  
May 24, 2005**

***Transition/Selection Process***

**What are the next steps in the selection process for jobs at IBM? Will I be asked to provide a resume or complete a Personal Profile Sheet? Will I have an interview?**

IBM has established a process whereby employees in areas under consideration are being asked to complete a Personal Profile Sheet and submit it to IBM. The form for the Personal Profile Sheet and instructions for this process are included in the May 24 memo from Bob Skaggs to employees under consideration. IBM may extend interviews for some of the positions that they wish to fill. As described in Bob's memo, not being asked to interview for a position does not necessarily indicate there is no job available.

**When will we know our individual status? Is there a timeline for next steps?**

All employees who are under consideration will know their personal circumstances during June.

**If I do not retain my position with NiSource and am not offered a job with the service provider, how many weeks will I continue to report to work?**

Employees will receive their personal considerations in June. Performance expectations will be the same as during any transition period. The needs of the business will determine actual transitions.

**What is the time line for employee rebadging? When do rebadged employees actually start working for the service provider?**

Once we have a signed contract between IBM and NiSource, that contract will determine the date for the service delivery handover. This timing may be phased for particular groups or functions. For employees who will be offered rebadge positions in June (at the same time that all employees under consideration will know their personal circumstances), they will receive their individual start dates with the service provider as part of their offer at that time.

***Transition/Severance***

**Will severance be available? Who is eligible?**

Severance will be offered to severed NiSource employees in accordance with the applicable Severance Policy.

**If I do not retain my position with NiSource and am not offered a job with the service provider, will there be an outplacement firm to assist me with finding employment elsewhere?**

Yes. NiSource has a relationship with Lee Hecht Harrison, a prominent global career management services company. You will be informed of their services if you receive

a severance package. Typical services include resume writing support, interview skills building, and job search support.

**If I receive a severance package, will I be required to work during the 45-day notification period?**

As a general rule, yes, with some exceptions for specific functions.

**If I receive severance, will I have the option to receive salary continuation or a lump sum?**

According to the NiSource Severance Policy, severance pay will be paid to a participant in one lump sum cash payment.

**Please clarify the terms "similar" and "comparable" as they appear in the most recent Severance Policy.**

Comparable employment is defined in the Severance Policy to mean employment with substantially the same or similar work schedule, base compensation and base skills as were applicable to the position held immediately prior to the termination of the employment, and which employment is principally located within a 50 miles radius of the place of principal employment on the date of termination of employment.

**If I am notified that I will be severed and I find a new job before my last day of employment, do I still get severance?**

If an employee voluntarily resigns prior to his/her last day as an active employee, the employee disqualifies himself/herself from receiving severance.

**Will expressing interest in a potential position on IBM's personal Profile Sheet impact my severance eligibility if I end up without a job?**

No, it will not.

**Please clarify the matter of unemployment compensation. Is it safe to assume that if we refuse the job with the service provider, that we will also be unable to receive unemployment compensation?**

Unemployment compensation eligibility decisions are made by the state in which you reside. You may want to contact your local unemployment office for clarification.

**Will I be training IBM employees who may take on my responsibilities? Am I going to have to train my replacement in order to get my severance?**

As the transition plan evolves, schedules for knowledge transfer will be developed and communicated. This will be an essential element to ensure a smooth transition.

Performance expectations will be the same as during any transition period. These performance expectations may include knowledge transfer with your IBM counterpart.

**If I am offered a position with the service provider and their work location**

**is within 50 miles of my current work location, but it is no longer on a bus line, will consideration be given for a severance since many employees take public transportation to work?**

Under the terms of the Severance Policy, if comparable employment is offered and the position is principally located within a 50 miles radius of the place of principal employment on the date of termination of employment, a severance would not be offered. This is not a policy change.

**Is vacation considered a "benefit" or "compensation" in the context of our severance policy?**

Vacation is considered a benefit.

**If an employee is rebadged and later terminated by IBM, what severance will the employee receive?**

If severed from NiSource, the NiSource severance policy would apply. IBM will speak to its own policies and practices.

**How will an employee who is off work on disability (STD, LTD) or FMLA be handled if his or her NiSource job status changes (i.e. rebadged, severed, etc.) before the employee has returned to work?**

NiSource would honor the duration of the qualified disability status. Disability benefits would continue and it would be negotiated as to whether NiSource's or the outsourcer's disability benefit program would cover it.

**If the service provider offers me a position, will NiSource compensate me for my unused vacation days?**

Accrual of vacation benefits will cease as of the date of termination of employment. Payment for earned and unused vacation time, based upon the vacation policy of the applicable affiliate on the date of termination, will be included in the employee's final regular pay check as an active employee.

**Will my benefits continue at the same rate/level of coverage during the severance period?**

Yes, for calendar year 2005. Any changes in benefits plans or costs that are implemented for 2006 will be the benefits you receive during the calendar year 2006.

**If the service provider offers me a position, who will make the final decisions about the pay, benefits, etc. offered to employees?**

The service provider will make these decisions.

### ***Retirement/Transition/Severance***

**A number of employees over 55 years of age have asked how rebadging might affect their retirement choice.**

Employees who are pension eligible have an ongoing opportunity to exercise their choice to retire and rebadging will not interfere with one's choice to retire. The policy for potential service breaks and seniority will be determined as part of the Terms and Conditions of the contract with IBM and are not yet known.

**Will there be a pension cash-out offer if you move to the service provider?**

Regarding pension cash-out, normal pension rules as to eligibility to withdraw monies would apply. Contact Hewitt or go to **MySource for HR** to inquire about pension rules.

**If someone transitions to the service provider, are the company's matching 401(k) contributions vested for people who have been here less than 5 years? Are our 401(k) plans secure, both what I've put in and what the company has contributed?**

401(k) contributions, both employee and employer, are immediately vested. The balance an employee has in the Savings Plan is held in trust at Fidelity Investments and is not accessible to NiSource or its creditors.

**Is consideration being given to bridge or grandfather employees who are close to reaching their 60th birthday?**

At this point, we aren't aware of any plans to bridge.

***General***

**What is the NiSource plan for continued cost containment? Will we continue to look for outsourcing alternatives or large-scale reductions in force?**

As you know, managing cost is one of the four strategic initiatives for our Company. Going forward, the Company will continue to seek the means to manage its cost base.

**Are there any other utilities outsourcing multiple functions?**

Many companies use a variety of relationships with third parties to deliver many types of services.

**Is off-shoring a possibility?**

As we have said before, IBM has an extensive global service delivery network with approximately 329,000 employees worldwide. Their proposed solutions include locating some work in some of these locations. At this point, we have no plans to place customer-facing activities in an offshore location.

**Is the company looking at the potential data safety and security issues around outsourcing?**

Safety and security of our data systems is and continues to be a high priority with or without outsourcing.

**Who makes the final decision on the outsourcing scope?**

The NiSource Executive Council will make the final decision on scope for the outsourcing initiative.

**Are the providers guaranteeing a savings?**

The contract negotiations will determine the parameters of any savings.

**How will our customers benefit from the outsourcing process?**

Customer service has been a high priority in all the work that is being done to develop solutions in all areas under consideration that touches the customer experience.

**Will the retained organization look different once outsourcing is complete?**

We can anticipate that if we reach agreement with IBM, the retained organization will respond to the changes in people, process and technology that will occur. So indeed it will likely be different.

## **Work Management on separate, parallel track with outsourcing**

Posted: 05-24-2005 at 12:30 Eastern Time

The Work Management Systems project -- an effort to provide new tools and technology for planning, scheduling and accounting for work at the NiSource local distribution companies - is moving forward on a separate but parallel track with the outsourcing transformation.

New Business, Builder-Developer and Business Link functions are now included in the Work Management project and are not being asked to provide resumes or Personal Profile Sheets to IBM.

"The Work Management project is not an outsourcing initiative, but is moving forward at the same time as the outsourcing transformation with assistance from IBM," **Harris Marple**, senior vice president of Distribution Operations, says. "This will allow us to integrate any changes in Supply Chain and Finance/Accounting systems into our planning for Work Management. We will have a separate NiSource core team managing the Work Management project, supported by IBM's experience in evaluating and implementing new technology and tools."

Since the project is just beginning, Marple says is too early to speculate on any potential organizational changes.

"Our focus now is on leveraging new tools and technology to support the standardization, integration and continuous improvement of our operating processes," Marple says. "Our goal is to provide employees with an efficient, safe and productive workday, while improving customer service through timely and efficient response to regular and emergency work."

## Outsourcing initiative enters new phase

Posted: 05-24-2005 at 12:31 Eastern Time

While negotiations are still continuing with IBM on the final scope and definition of the areas to be outsourced, NiSource and IBM are taking steps now to begin a transition process that will meet NiSource's commitment to provide specific information to employees in areas under consideration about their personal status during June.

As part of the transition process, employees in areas under consideration for outsourcing were asked today to provide information to IBM about their skills and work history.

In a letter from NiSource President **Bob Skaggs**, employees in areas under consideration for outsourcing were asked to complete Personal Profile Sheets or submit resumes to IBM no later than 10 a.m. Central Time/11 a.m. Eastern Time on Thursday, May 26, 2005.

"While we have not yet signed a contract with IBM, or reached closure on the final scope and definition of the areas to be outsourced, we are mindful of the commitment we made to you and all employees in these functional areas to have specific information available during June," wrote Skaggs. "To meet that deadline, we are beginning a thoughtful and disciplined transition staffing process that requires actions now by IBM, NiSource and, most importantly, employees such as you."

Skaggs emphasized that we have been informed by IBM that, depending on the area and positions involved, some individuals may be contacted to schedule an interview with IBM, but that not being asked to interview for a position does not indicate there is no job available. In the letter, Skaggs included **key facts** about the staffing transition process.

- Our collaboration with IBM will result in some continuing roles within NiSource, some new positions as NiSource employees, and some job offers for employees as part of the IBM solution. Clearly, all of these roles are critically important to NiSource and our transformation.
- The agreement also will result in some job eliminations.
- Employees affected by this change will be able to represent their skills and work history to IBM as part of IBM's selection process.
- IBM is asking you to complete a Personal Profile Sheet and return it to IBM at [ibmhr@us.ibm.com](mailto:ibmhr@us.ibm.com) no later than 10:00 AM central time on May 26,

2005. If you are unable to complete the Personal Profile Sheet and return it by the time indicated, you may attach a resume instead.
- Depending on the skill sets and positions involved, some individuals may potentially be contacted to schedule an interview with IBM.
  - Not being asked to interview for a position does not necessarily indicate there is no job available. There are several reasons employees may not be contacted for an interview with IBM: they may be under consideration for potential openings within NiSource; IBM may not require interviews because entire groups of employees may get job offers as part of the IBM solution; or there may not be available positions matching individual employee skills or experience.
  - It is anticipated that most employees - whether asked to interview or not - will learn their status once an agreement is reached with IBM. We remain on track to complete those discussions during June.

"Our goal is to move through this process as quickly, yet thoughtfully, as possible to provide specific information and answers for each employee," added Skaggs. "Thank you for your understanding and participation in this important process."

## NiSource working toward common time entry system

Posted: 05-24-2005 at 05:00 Eastern Time

A cross-functional team comprised of employees from finance and accounting, information technology and human resources has begun a process to move NiSource to a common system for time reporting across the enterprise.

The objective is to implement a single system that would replace EASI and ATR. A common system also would eliminate the need for some employees to enter the same data about time worked more than once. In some areas of the company, employees currently must enter their time into both a time management system and a separate work management system.

The effort will support the continued integration of NiSource's businesses, says **Jeff Grossman**, NiSource vice president and controller. The initiative began before NiSource began reviewing the possibility of outsourcing some functions, he noted, and is continuing because NiSource must move to a common time entry system. The time entry project will tie in as appropriate to any decisions that are made on the outsourcing initiative.

The team is working with IBM to analyze requirements for a time entry system that meets NiSource's needs, and will compare those requirements to available products to select the best solution for the company.

Representatives from the team have begun conducting workshops with small groups of employees throughout the company who use the current time entry systems. The purpose of the workshops is to document users' ideas about what a time entry system must do, and how it could work better than NiSource's current systems.

## **NiSource holds Annual Stockholders Meeting today; Skaggs elected as director**

Posted: 05-10-2005 at 12:15 Eastern Time

NiSource held its annual meeting of stockholders today in Pittsburgh, Pa., an area served by Columbia Gas of Pennsylvania. Chairman and Chief Executive Officer Gary L. Neale spoke to stockholders about the cyclical energy industry, NiSource's transformation process, the corporation's focused 2005 business plan and its platform for long-term, sustainable growth in 2006 and beyond.

NiSource is well positioned for growth, Neale noted. The company has a balanced portfolio of assets, with 100 percent of its operating income derived from regulated natural gas and electric distribution and natural gas transmission and storage businesses. NiSource's operations are strategically located from the Gulf of Mexico, through the Midwest to the Mid-Atlantic states and New England, serving a market area covering 30 percent of the U.S. population and 40 percent of the nation's energy consumption. The company also has a stable balance sheet and strong investment grade credit ratings.

"Growth drivers for the future will include organic growth in our utility markets, expansion of our pipeline and natural gas storage businesses, regulatory and commercial initiatives, continued strengthening of the balance sheet and expense management," Neale said. "We have made significant progress in each of these areas so far this year."

During the meeting, stockholders voted to elect Steven R. McCracken, Ian M. Rolland, John W. Thompson and Robert C. Skaggs, Jr., as directors of the company, each to serve for a term of three years.

McCracken, president and chief executive officer of Owens-Illinois, Inc., in Toledo, Ohio, and Skaggs, president of NiSource, each was nominated as a candidate for director for the first time in 2005. Rolland, prior to his retirement in 1998, served as chairman and chief executive officer of Lincoln National Corp. in Ft. Wayne, Ind., and has been a NiSource director since 1978. Thompson, chairman and chief executive officer of Symantec Corp. in Cupertino, Calif., has been a NiSource director since 1993.

Stockholders also voted in favor of the ratification of the appointment of Deloitte & Touche LLP as the company's independent public accountants for 2005, in favor of the company's proposed amendments to NiSource's Long Term Incentive Plan and in favor of the proposed amendments to the company's Employee Stock Purchase Plan.

With respect to stockholder proposals, stockholders voted in favor of the annual election of board members and in favor of a proposal to elect directors by majority vote. Stockholder proposals, by their nature, are advisory and not binding on the corporation, and any such changes would require a charter or by-law amendment to become effective. The NiSource board will take the results of the stockholder vote under consideration.

Visit the NiSource Web site to read Gary Neale's presentation at the 2005 Annual Meeting.

## NiSource reports earnings for first quarter 2005

Posted: 04-29-2005 at 08:00 Eastern Time

NiSource today reported income from continuing operations for the three months ended March 31, 2005, of \$208.7 million, or 77 cents per share (all per-share amounts are basic), compared with income from continuing operations of \$216.6 million, or 83 cents per share, for the first quarter of 2004.

The quarterly difference was primarily due to a decline in revenue resulting from NiSource pipelines renegotiating long-term contracts with their largest customers, and lower gas distribution customer usage and warmer weather than the year-ago period. Partially offsetting these declines were increased revenues from regulatory initiatives and remarketing efforts within gas transmission and storage operations. The pipeline renegotiation process is now complete and the new contracts span an average of seven years with staggered expiration dates.

Two cents of the decline in earnings per share from continuing operations was the result of an increase of 8.0 million shares in the average number of shares outstanding at March 31, 2005, compared to the year earlier, due primarily to the NiSource Stock Appreciation Income Linked Securities (SAILS<sup>SM</sup>) conversion in November 2004.

Net income was \$206.3 million, or 76 cents per share, for the first quarter of 2005. This compares to net income of \$213.5 million, or 81 cents per share, for the year-ago period.

"We have clearly made significant progress on our key initiatives for 2005 and on building a platform for long-term, sustainable growth in 2006 and beyond," said **Gary L. Neale**, NiSource chairman and chief executive officer. "We've stated previously that 2005 would be a base year, from which we will continue expanding the foundation to generate future growth and development, and our financial results for the first quarter are important steps in achieving NiSource's business plan for 2005."

### ***Transformation continues***

Neale announced that NiSource has selected IBM as the business process service provider with whom NiSource will move forward into a period of exclusive negotiation toward a contract to outsource up to \$2 billion of business support activities over 10 years. Teams of employees from the areas under consideration for transformation have been working for three months through a disciplined process with Accenture and IBM - the two service providers that responded to an extensive request for proposals (RFP) from NiSource - to identify potential solutions and savings.

"Both Accenture and IBM have put forth outstanding efforts in responding to our RFP and developing proposals that could meet NiSource's business needs as well as our expectations for safety, reliability and delivering quality customer service. Both providers offered credible and workable solutions for our business," Neale said. "Based on our exploration and work with the providers to date, we anticipate the company will outsource a portion of our business support activities."

Neale noted that NiSource has not yet finalized which activities and processes will be outsourced or to what extent. Beginning immediately, a team from NiSource and IBM will continue to define the future relationship between the two companies. NiSource expects to make final decisions and conclude contract negotiations in June.

### ***First-quarter results and key accomplishments demonstrate progress on business plan***

Neale and NiSource President **Robert C. Skaggs, Jr.**, noted that accomplishments since the beginning of 2005 include the following:

- Northern Indiana Public Service Company (NIPSCO), NiSource's gas and electric subsidiary, and the Indiana Office of Utility Consumer Counselor signed a Memorandum of Understanding (MOU) that would allow NIPSCO to recover purchased power costs if certain conditions are met while at the same time securing safe, reliable and intermediate dispatchable supplies of power for its electric customers. The MOU also outlined a settlement agreement subject to an independent, third-party review.
  - NIPSCO selected EnergyUSA-TPC from bidders responding to a Request for Proposals issued in October 2004 to provide 230 megawatts of dispatchable power, utilizing the generation facilities of Whiting Clean Energy, pending regulatory approval. EnergyUSA-TPC and Whiting Clean Energy also are subsidiaries of NiSource.
  - Whiting Clean Energy completed renegotiation of the terms of its agreement with BP's oil refinery in Whiting, Ind. Under the revised agreement, Whiting Clean Energy will continue to meet BP's need for steam, while reducing the power plant's required run time.
  - Bay State Gas Company filed a \$22.2 million, or 4.7 percent, base rate case in Massachusetts that, if approved, would go into effect Dec. 1, 2005. The rate case includes requests for a performance-based rate plan and cost recovery for a steel infrastructure replacement program.
  - Columbia Gas of Kentucky received regulatory approval to renew its Customer Choice Program. The program, which began in 2000 as a pilot and was scheduled to end March 31, 2005, will now continue as a new pilot through March 31, 2009.
  - Christopher Helms was named Pipeline Group President, a new NiSource officer position. He will be responsible for executing an aggressive growth strategy for NiSource's interstate natural gas pipeline and storage companies, while ensuring the continued operation of a reliable and safe system.
  - Hardy Storage Company, LLC, filed its formal project application with the Federal Energy Regulatory Commission (FERC) to help meet increased market demand for natural gas in the eastern United States. Hardy Storage proposes to develop a natural gas storage field from a depleted natural gas production field in Hardy and Hampshire Counties, W. Va. Joint developers of the project are NiSource subsidiary Columbia Gas Transmission Corp. and a subsidiary of Piedmont Natural Gas.
  - NiSource entered into a \$1.25 billion revolving credit agreement to fund future working capital requirements and other corporate needs. The new five-year agreement replaces existing agreements and is expected to reduce interest expense by approximately \$900,000 for the remainder of 2005 and by about \$1.2 million annually thereafter.
- NiSource also continued to make strides in strengthening its balance sheet and reducing debt. The company's debt ratio has improved to 55 percent, compared to 60 percent at year-end 2003. The company's short-term cash investment position at the end of the first quarter of 2005 was \$553 million. In addition, there were no borrowings under the company's \$1.25 billion line of credit.

Neale and Skaggs added that they were pleased with these first-quarter accomplishments and results, and that the first quarter delivered significant progress toward NiSource's business plan for 2005 and 2006.

The full text of the earnings release and detailed financial results are available via the [NiSource Web site](#).

## **Outsourcing update: IBM site visits beginning**

Posted: 05-04-2005 at 15:28 Eastern Time

As announced last week, NiSource has selected IBM as the business process service provider with whom the company will move forward into a period of exclusive negotiations toward a contract to outsource business support activities.

The next important step in that process, beginning this week, is called due diligence. During the due diligence process, IBM will be gathering additional detailed information about NiSource's work processes. This will help IBM validate its outsourcing proposals and ensure that it is able to provide the level of service quality and customer satisfaction that NiSource requires.

In some cases, IBM representatives will visit selected NiSource work locations that are representative of the type of activities and volumes of work in areas under consideration. NiSource representatives at these locations will work with the IBM team members to provide access to information and work processes they need to view. IBM and NiSource representatives will not be discussing the outsourcing proposals during the site visits.

During this same timeframe, several NiSource representatives will be visiting IBM work locations to observe IBM's capabilities and work processes in action. NiSource and IBM remain on track to make final decisions and conclude contract negotiations in June.

## A message from Bob Skaggs regarding earnings and outsourcing

Posted: 04-29-2005 at 08:00 Eastern Time

Dear Colleagues:

Today we are announcing [NiSource's first quarter earnings](#) and providing an update for financial analysts on your efforts to deliver strong financial results and establish a platform for sustainable growth. Thanks to your continued hard work, we are able to highlight significant accomplishments in each of our strategic areas:

- Pipeline Growth
- Regulatory & Commercial Initiatives
- Financial Management
- Cost Management

Our news release highlights your accomplishments and I hope you'll take some time to read it to see the progress we've made in delivering on our commitments. Also today, we announced that we will move forward with IBM as the provider with whom we will begin exclusive contract negotiations to outsource some business support activities.

Both IBM and Accenture did outstanding work in developing proposals to meet our business needs and meeting our expectations for safety, reliability and quality customer service. So, choosing IBM was a difficult decision. Now that we have made this choice, beginning immediately, a team from NiSource and IBM will begin to define the collaboration between the two companies. Based on the work we've done, we are comfortable moving forward with our planning to outsource some business support activities. However, we have a lot more work to do to get to a definitive plan and provide you with the specifics you need. Delivering on our commitment to you for these specifics is a primary focus of our efforts.

Let me share with you some of the key benefits from outsourcing that we have identified so far:

- The ability to rapidly transform our major business support processes.
- Access to new technology and service capabilities for NiSource and its customers.
- Redeployment of capital funding for investments in our core business.
- Enhanced strategic focus on our core gas and electric operations.

These benefits will be essential to ensure that we've established a platform for long-term sustainable growth at NiSource. Still, we recognize that there are some questions we will not be able to answer until specifics of the contract are negotiated. We expect to conclude contract negotiations in June, and we expect employees to know specifics by late June.

Obviously, this is a significant decision for NiSource. It will change the nature of our organization - both for functions that may be outsourced and for areas that depend on those services. Our goal is to move forward with this process as thoughtfully, but deliberately, as possible. Again, I appreciate your continued focus as we pursue this and the other important elements of our business plan.

An updated [fact sheet](#) and [Q&A](#) on this effort are available on *MySource*. I hope you find these materials helpful.

Sincerely,

***Bob Skaggs***  
President

## **NiSource Outsourcing Q&A Update**

April 29, 2005

### **Why did we choose IBM?**

Both providers did outstanding work in developing proposals that meet NiSource's business needs and meet the company's expectations for safety and reliability and quality customer service.

Based on the operational solutions they developed, their commitment to quality customer service, their "fit" with NiSource, the opportunities for NiSource employees and their pricing strategy, we selected IBM.

### **If we have not yet made any decisions to outsource, how did we select IBM?**

Based on our exploration and work to date, we anticipate the company will outsource some business support activities. However, we have not made decisions on specific functions. It is possible that during due diligence and contract negotiations there could be some changes to what is in scope for outsourcing. We have determined to move forward exclusively with due diligence and contract negotiations with IBM.

### **Are the functions listed as "areas under consideration" (IT, Customer Contact Centers, HR/Communications, Meter to Cash, Finance and Accounting, Sales, Work Management, Supply Chain) back in February still the same?**

Broadly speaking, yes. However, as we move through due diligence and contract negotiations, changes could be made to the functional areas under consideration, or parts of these areas being considered.

### **What role will Accenture play with us now that we have chosen IBM?**

We have determined to move forward exclusively with due diligence and contract negotiations with IBM. Accenture also offered credible and workable solutions for our business needs. We respect the effort and product they offered and would be confident in working with them.

### **What is "due diligence"?**

Due diligence is the next phase of the outsourcing decision-making process. During this period, both IBM and NiSource leaders will verify and confirm the information each has provided. We will move from data and paper-based information to a more hands-on approach such as visiting IBM operations and having IBM visit NiSource operations.

We also will be checking references and reviewing IBM's work with other clients.

### **What is a "solution"?**

Solution is the term given to an operational plan for getting work done that has been developed by the provider, in response to the definition of work provided by NiSource.

**Why can't we describe the solutions proposed by IBM? Are you hiding information?**

There is no intent to mislead or keep information from employees. Rather, we do not want to provide specific information until it is certain. We understand this effort will have a personal impact on some employees, and our goal is to provide accurate information that defines individual situations as soon as we can. That is our commitment.

**If we have not made any decisions yet, how do we know that the services IBM will be providing total \$2 Billion as referenced in the earnings release?**

The \$2 billion represents the total baseline for operations and maintenance (O&M) and capital expense for all the areas under consideration over a 10-year contract.

**Who is leading the negotiations team for NiSource?**

Mike O'Donnell will lead the negotiations team. Sherry Gavito, Dean Bruno and Gary Kruse also will be members of the negotiation team. In addition, we intend to call on a host of subject matter experts from the business to support this effort.

**Will NiSource place jobs offshore to places like India?**

**IBM** has an extensive global service delivery network with approximately 329,000 employees worldwide. Their proposed solutions include locating some work in some of these locations. At this point, we have no plans to place customer-facing activities in an offshore location.

**What are customer-facing activities?**

Customer-facing activities those that involve direct contact with retail customers.

## NiSource Outsourcing Fact Sheet

April 29, 2005

*NiSource has selected IBM as the business process service provider with whom the company will move forward into a period of exclusive negotiations toward a contract to outsource business support activities. NiSource has not yet finalized which activities and processes will be outsourced or to what extent. Beginning immediately, a team from NiSource and IBM will continue to define the future relationship between the two companies. NiSource expects to make final decisions and conclude contract negotiations in June. Here are some key points about this effort:*

### Why we are doing this:

- **We are planning to transform our company as part of a balanced strategy to achieving long-term, sustainable growth for our company.** We need to sharpen our strategic focus on our core businesses, re-deploy capital toward growth opportunities and manage our cost structure. Outsourcing will help us achieve our goals.

### Benefits of outsourcing for NiSource:

- **Drive business process transformation** – There are a number of post-merger process improvements that we have not been able to complete due to lack of resources or organizational capacity. (Example: implementing a common general ledger system.) IBM has expertise in delivering those types of transformations on a global scale.
- **Take advantage of new technology tools and process innovations** – IBM is continually investing in the latest business services technology and process innovations. Our collaboration with IBM will bring new systems, enabling tools and resources to NiSource.
- **Provide additional resources for investing in our core businesses** – Currently, a large percentage of our capital program and operating budget is devoted to maintaining or improving our business support systems. Outsourcing would offer the opportunity to re-deploy those resources to invest in growth and our core businesses.
- **Sharpen our strategic focus** – We need to concentrate our business skills and energy on growing our core natural gas and electric businesses. Working with a business process service provider could help us meet our basic support needs while allowing us to focus on more strategic business priorities.

### What outsourcing could mean for employees:

- **Uncertainty, then answers** – We know this creates concern. We are committed to providing answers as soon as possible. As we make decisions, we will work with IBM on a detailed transition program to help people understand the changes.
- **Possibly a new employer, with new career opportunities** –When we outsource, it is likely some people will be offered positions with the service provider. Those individuals will have a chance to learn about the provider and ask questions about the job, benefits and career opportunities.
- **Severance for some** –As we make outsourcing decisions, it is also likely some employees will not have a continuing position with either NiSource or the service provider. Those individuals will be offered NiSource's employee severance package, including outplacement assistance.

- **Some change for everyone** – Even employees not directly affected by outsourcing will experience some changes. It may be that they will use a new service delivery tool or process, or be partnering with new service providers. Learning about these changes also will be part of the transition plan.

**What outsourcing could mean for our customers:**

- **Continued service levels and reliability** – Ideally, our customers should experience little or no change because of outsourcing. We are committed to maintaining our current levels of customer service and reliability. In fact, our first step in undertaking this review was to clearly define the customer service level expectations that the service providers must achieve.
- **Potential for future enhancements, efficiencies or new service options** – By collaborating with IBM, we expect to see future improvements via their primary business focus on enhancing and improving the customer service experience.

## **A reminder about rumors and news reports**

Posted: 04-27-2005 at 12:30 Eastern Time

There are currently several news reports and rumors circulating about the status of NiSource's outsourcing study. At least one of those articles claims that final decisions have been made about outsourcing, which is not accurate. During this period of uncertainty, it is likely that rumors, speculation and opinion will continue to find their way into news reports such as these. When these rumors surface, please remember that we are committed to sharing factual and accurate information with employees as this process moves forward. There will still be speculation, but please look to *MySource* for factual updates about where we are in the process.

## NiSource severance policy

Posted: 04-07-2005 at 13:00 Eastern Time

The Nominating and Compensation Committee of the NiSource Board of Directors has amended the NiSource Severance Policy to clarify the intent of the policy as it relates to outsourcing.

The Severance Policy was established to provide severance pay and other benefits to certain employees while they seek alternative employment. Although the policy addressed the situation where an employee received an offer of comparable employment in various situations, it did not address an outsourcing situation.

The committee wanted to make clear that the intention of the policy is to treat termination of employment due to outsourcing in the same manner as other terminations under the Severance Policy and has therefore amended the language. Should an employee not have work as a result of outsourcing but did not receive an offer of comparable employment, he/she would be eligible for severance if he/she is otherwise covered by the Severance Policy.

The policy now specifically clarifies that an employee is not eligible for severance if that employee's position with the company is eliminated due to outsourcing but the employee is offered a comparable job with a potential provider.

Following is the definition of a comparable job as outlined in the policy:

*Comparable employment* means employment with substantially the same or similar work schedule, base compensation and base skills as were applicable to the position held with any Affiliate immediately prior to the termination of employment, and which employment is principally located within a 50 mile radius of the place of principal employment on the date of termination of employment.

"We recognize that our exploration of outsourcing has resulted in some anxiety throughout the areas under consideration," states **Bob Skaggs**, NiSource president. "So, before we've made any decisions on outsourcing, we believe it is important to provide this clarification."

## Outsourcing service providers back on site in Merrillville

Posted: 04-05-2005 at 11:40 Eastern Time

Beginning today (4/5), representatives from IBM are back in Merrillville to meet with the teams from the areas under consideration for outsourcing. The purpose of the onsite visits is to ensure the solutions proposed by the providers are fully detailed, understood and aligned with NiSource's business needs.

"The teams have done great work and we are very appreciative of their efforts," says NiSource President **Bob Skaggs**. "While we are committed to sticking with our process to get to the best decisions, the preliminary proposals from both providers show that there is substantial value available to us from outsourcing."

Teams are scheduled to meet with their IBM counterparts to get into the detailed specifics of each function's proposal, seek any needed clarification and resolve any questions or issues related to the proposal. The NiSource teams, with assistance from our consultants EquaTerra, are working to be able to conduct side-by-side comparisons of the proposals from IBM and Accenture and evaluate their proposed solutions, the savings associated with the solution and the timetable and transition plans for each area.

Both IBM and Accenture were asked to present their proposals in the same format and respond to the specific requirements outlined in the Request For Proposals (RFP) issued to them by NiSource. The RFP document was more than 1,400 pages and outlined the Statement of Work (SOW) for each of the areas under consideration in a consistent template. This detailed process and the templates have provided the teams with a consistent format to evaluate the proposals. Next week, Accenture will be onsite in Merrillville and will follow the same process.

"We have been pleased with the quality of the preliminary work done by the providers," states Skaggs. "They have been responsive to our commitment to maintain customer service and ensure safety and reliability requirements in all aspects of our business."

In late April, the company will select one provider to move forward in the process.

## NiSource mails annual report and proxy materials to stockholders

Posted: 04-04-2005 at 14:40 Eastern Time

NiSource's 2004 annual report and proxy materials are now being mailed to all stockholders, and are available on the company's Web site. The company made this announcement today in a press release.

NiSource also announced that its 2005 Annual Meeting of Stockholders will be held at 10 a.m. (Eastern time) on May 10 at The Westin Convention Center Pittsburgh in Pittsburgh, Pa. Stockholders of record as of March 15, 2005, are eligible to vote on matters to come before the meeting, either in person or by proxy. Complete instructions for voting and for registering to attend the meeting are contained in the proxy materials.

The annual report, titled "The Art of Transformation," discusses the cyclical changes the company and the industry have gone through during the past 15 years as well as management's plans for further transformation of the company. In their letter to stockholders, NiSource Chairman and Chief Executive Officer **Gary L. Neale** and NiSource President **Robert C. Skaggs Jr.** outline NiSource's balanced and focused growth strategy for 2005.

The objective of the company's transformation process for 2005 and beyond is long-term, sustainable growth - without undue risk. The strategy is centered on four key initiatives:

- Growth and expansion of NiSource's natural gas pipeline business;
- Broad regulatory and commercial initiatives premised on existing assets;
- Ongoing financial management of the company's balance sheet; and
- Continuing cost management.

"NiSource has responded to our industry's 'back to basics' focus on regulated core businesses with a simple, clear and balanced business strategy designed to address short-term financial challenges, while establishing a platform for long-term, sustainable growth," Neale and Skaggs state in the report.

## Outsourcing update -- efforts on track

Posted: 03-22-2005 at 05:30 Eastern Time

Since NiSource announced it was exploring outsourcing as a means to accelerate transformation within several business functions, the company has followed a series of steps to assess its options.

First, teams from each area under consideration developed detailed Requests for Proposals (RFPs) that were provided to IBM and Accenture, the two service providers NiSource decided to consider. The RFPs detailed the various activities and services IBM or Accenture could deliver on an outsourced basis.

After issuing the RFPs, both Accenture and IBM had representatives on site in Merrillville separately to meet with NiSource leaders to seek further detail about the company's business needs.

Last Monday (3/14), as scheduled, IBM delivered its written proposal to the company. Accenture's proposal was due yesterday (3/21).

On Thursday (3/17), IBM representatives formally presented their proposal to functional leaders from each of the areas under consideration. IBM then presented its proposal to the NiSource Executive Council on Friday (3/18).

Accenture will follow the same process in presenting its proposal to NiSource this week.

"A tremendous amount of good work has been accomplished by our teams throughout this process," states **Bob Skaggs**, NiSource president.

Following the formal presentations, NiSource representatives will begin a thorough and disciplined review of both proposals with the goal to seek any clarification and confirm that each proposal is aligned with NiSource's requirements -- including ongoing service quality and responsiveness.

"We recognize employees have questions and we are fully committed to providing answers once decisions have been made," Skaggs says. "We are committed to working through the process we established so we can make informed decisions."

NiSource remains on track to complete its review in June.

## **Service provider visits concluded; proposals next**

Posted: 03-07-2005 at 10:38 Eastern Time

Teams of representatives from Accenture and IBM have completed their initial visits to NiSource's South Lake complex to meet with company representatives and gather information for their outsourcing proposals.

During the visits, service provider representatives met with representatives from each of the functions under consideration for potential outsourcing. The providers learned details of NiSource's business requirements, while the NiSource representatives began assessing the capabilities and approaches of each of the providers.

Accenture and IBM each are expected to present formal proposals to NiSource by the end of March. The proposals will be carefully reviewed by representatives from each functional area, as well as by NiSource executive management before decisions are made regarding any aspects of the proposals.

## On-site meetings part of service provider process

Posted: 02-21-2005 at 13:00 Eastern Time

At various times during the next several weeks, teams of representatives from Accenture and IBM will be visiting NiSource's South Lake complex to meet with company representatives and review information needed to develop their outsourcing proposals.

During the visits, the service providers will learn more details of NiSource's business support expectations and service requirements. The visits also will provide an opportunity for teams of experts from the NiSource functional areas under review to begin assessing the capabilities and approaches of Accenture and IBM. (As reported last week, Hewlett Packard has decided not to submit a proposal or take part in the review.)

NiSource expects to receive formal proposals from the service providers by the end of March. The proposals will be carefully reviewed and tested before NiSource makes a decision regarding any of the support functions under review.

To ensure consistency in the process, each of the service providers received identical requests for proposals from NiSource and will have access to the all the same people and information they will need during their visits to complete their proposals. If you are approached by representatives from either service provider seeking information, please refer them to **Sherry Gavito** at (219) 647-6086.

## **Service providers receive NiSource's request for proposal *IBM, Accenture to develop proposals; HP opts out of consideration***

Posted: 02-14-2005 at 07:15 Eastern Time

Accenture, Hewlett Packard (HP) and IBM have been sent copies of NiSource's formal request for proposal (RFP) for providing day-to-day delivery of a range of business support functions. The RFP was developed during the last several weeks by NiSource management and functional representatives. It includes statements of work, service delivery requirements and other information about each of the functional areas under consideration.

After an initial review of the 1,500-page document, representatives of Accenture and IBM each met with NiSource representatives and said they are eager to participate in the review process and plan to develop and submit formal proposals. NiSource has been told by HP that it will not submit a response to the RFP.

HP's decision does not change the overall focus or schedule of the service provider review. Also, since NiSource had previously considered and narrowed the list of potential service providers, it will not be soliciting proposals from other vendors.

### **Additional employee questions answered**

Understandably, lots of questions have been raised by employees since the announcement of this initiative late last week. Some of these questions were addressed in the [Q&A posted on MySource](#) on Feb. 4. Here are answers to some additional questions raised in employee meetings or discussions:

1. **How does this affect independent contractors or temporary employees in the areas of consideration?** Again, no decisions have been made yet. As further information is available, we will share information with independent contractors and temporaries. NiSource will continue to always honor its contracts with any contractor and likewise expects contractors to honor their contracts.
2. **The documents make reference to a Company 12 initiative that began last year to reduce costs in our Corporate Center functions. What is this?** During 2004, NiSource management conducted a review of costs associated with several of its Corporate Center support functions, including areas such as Communications, Human Resources, Information Technology and Finance. As a result of this review, a number of cost savings were identified in these areas. For the most part, these savings have now been implemented and are reflected in the current 2005 budgets for those areas.
3. **Are warehouse operations employees and field meter reading and field collections employees under consideration as part of this outsourcing initiative?** No, these functions are not part of the review.
4. **Is it possible that part, but not all, of a function under consideration could be outsourced?** Yes. It is possible this review will result in some parts of functions being candidates for outsourcing, while other parts are not.
5. **Is it possible that more than one service provider will be selected, or that different functions could be outsourced to different vendors?** At this time, we do not envision working with more than one vendor.
6. **We currently have various business relationships with Accenture and IBM. Also, some of the people involved in this project have worked for these companies in the past. Isn't that a conflict of interest?** NiSource's Ethics Policy is very clear regarding conflicts of interests in all business dealings. We are confident that there will be no conflict of interest in this process.
7. **You have referenced some examples where outsourcing has worked at NiSource. We also hear about cases where outsourcing has not been successful. How will this effort be different?** We believe success in working with any outside service provider begins with carefully and clearly defining service level

expectations, as well as the processes both the vendor and the company will follow to ensure ongoing service quality and responsiveness. That is why we are engaged in a disciplined process to define our specific service requirements for each function under consideration and to discuss those requirements with each of the vendors. If we ultimately decide to pursue outsourcing, we will define clear governance processes and roles for managing our relationship with the vendor.

8. **What will areas under consideration do in terms of outside hires?** For the areas under consideration, we obviously want to look carefully at any outside hiring on a case-by-case basis. Human Resources will assist with that process. Otherwise, our hiring and staffing procedures are unchanged.
9. **Why is the length of contract anticipated to be seven to ten years? Why not try it out for a year or two and see if it works?** A long-term agreement will benefit NiSource by ensuring cost stability and predictability for the functions covered under the agreement. Likewise, because of the significant level of investment anticipated from the service providers (such as implementing costly new technology systems or business process improvements) we expect they will want a longer-term commitment from us as well.
10. **It is not uncommon for companies to help fund some of the costs of vendors responding to a request for proposal. Are we helping pay for these companies to bid on our work?** No. The vendors are developing their own proposals at their own expense. Given the range of functions under review, we expect the costs of developing those proposals will be significant for each of the vendors.
11. **What happens after June?** Depending on the outcome of this review, we will begin a transitional period. If we proceed with a business process outsourcing arrangement, then June would mark the beginning of the transition. It could move quickly in some areas, but it could take longer in other areas.
12. **In announcing the recent NiSource Incentive Plan payout, management talked about how employees really stepped up to deliver performance during 2004. Given that success, how can you now consider outsourcing a significant portion of that same workforce?** We want to again stress that this outsourcing review is no reflection on the performance or quality of service employees are delivering in any of the functions under consideration. In fact, employees across our companies have consistently shown they are willing and able to respond to challenges and deliver results. We truly recognize and appreciate that commitment. For business reasons, we believe it is incumbent on NiSource to consider outsourcing as an option for transforming our support processes in ways that we alone may not be able to accomplish. Outsourcing ultimately may not be the right answer in all instances. Nonetheless, this outsourcing exercise can provide many meaningful benchmarks that may enable us to capture transforming opportunities on our own.

**Gary L. Neale**  
*Chairman and Chief Executive Officer*

**Robert C. Skaggs, Jr.**  
*President*  
February 8, 2005

801 E. 86th Avenue  
Merrillville, IN 46410

Dear NiSource Colleagues:

We would like to repeat and expand on some of the key messages from NiSource's meeting Friday (Feb. 4) with Wall Street analysts. At the meeting, we reviewed our 2004 performance, outlined several new financial challenges facing our companies, and provided earnings guidance for 2005. We also outlined a balanced business strategy designed to address our short-term financial challenges and establish a platform for sustainable growth in the future. Our strategy focuses on four key areas:

1. **Pipeline Growth.** We are pursuing prime, long-term growth opportunities along our interstate pipeline system, particularly in the Mid-Atlantic and Northeast regions. Millennium Pipeline and Hardy Storage are two working examples, with more to come.
2. **Regulatory & Commercial Initiatives.** We expect steady growth out of our core electric and gas businesses. Our LDCs add about 50,000 customers per year in base growth, and we believe rate cases, trackers and other commercial and regulatory initiatives can enhance those core results.
3. **Financial Management.** We will continue taking steps to refinance our debt structure, reduce interest costs and ensure investment grade credit ratings.
4. **Cost Management.** Revenue reductions from recent regulatory proceedings, the level of renewal of contracts with our pipelines' major customers, as well as increased costs in certain areas have significantly reduced our 2005 earnings outlook. At the same time, we are increasing our capital investments in our core businesses by more than \$100 million. To help balance a lower earnings level with the need for greater investment, we are considering a range of existing and new ways to help us manage overall costs and free up additional capital for investment.

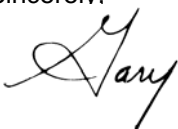
One of the cost initiatives we discussed involves the possibility of outsourcing a significant portion of our in-house business support functions. We realize the topic of outsourcing creates great concern among employees. Please understand that no final decisions have yet been made. We are working with experts to help us fully understand our options and evaluate how various scenarios could affect our company, our employees and our customers. Employees in groups currently under consideration have been receiving additional information about that process. The positions ultimately affected, if any, will be known once the review is completed by June of this year.

We want to stress that this outsourcing review is no reflection on the quality of service currently being provided by the functions under consideration. In fact, maintaining required service levels to our internal and external customers will be a priority throughout this review.

We also want to emphasize that we remain committed to transforming our key processes and activities. Outsourcing may indeed not be the appropriate approach in all instances. Nonetheless, this outsourcing exercise can provide many meaningful benchmarks that will enable us to capture transforming opportunities on our own.

We know this process creates uncertainty for some employees, and we are committed to providing information throughout the entire process. A copy of our Wall Street presentation, a recording of the meeting and more information about the outsourcing review are available via *MySource*. Thank you again for your strong efforts during 2004 and your continued focus on safety, reliability and customer service during 2005.

Sincerely,





***February, 2005***



***Gary Neale – Chairman & Chief Executive Officer***  
***Bob Skaggs - President***  
***Mike O'Donnell - Executive Vice President***  
***& Chief Financial Officer***  
***Dennis Senchak – Vice President Investor Relations***

# FORWARD-LOOKING STATEMENTS

## “Safe Harbor” Statement

This presentation includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Those statements include statements regarding the intent, belief or current expectations of the Company and its management.

Although NiSource Inc. believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved. Readers are cautioned that the forward-looking statements in this presentation are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: weather, fluctuations in supply and demand for energy commodities, growth opportunities for NiSource’s businesses, increased competition in deregulated energy markets, the success of regulatory and commercial initiatives, dealings with third parties over whom NiSource has no control, the scope, timing and effectiveness of any outsourcing initiative, actual operating experience of NiSource assets, the regulatory process (including the effect of any outsourcing initiative and sharing of any cost savings in the rate-making processes), regulatory and legislative changes, changes in general economic, capital and commodity market conditions, and counter-party credit risk.

**February, 2005**

# A SUPER REGIONAL INTEGRATED GAS COMPANY

3<sup>rd</sup> Largest Gas Distribution Company in U.S.

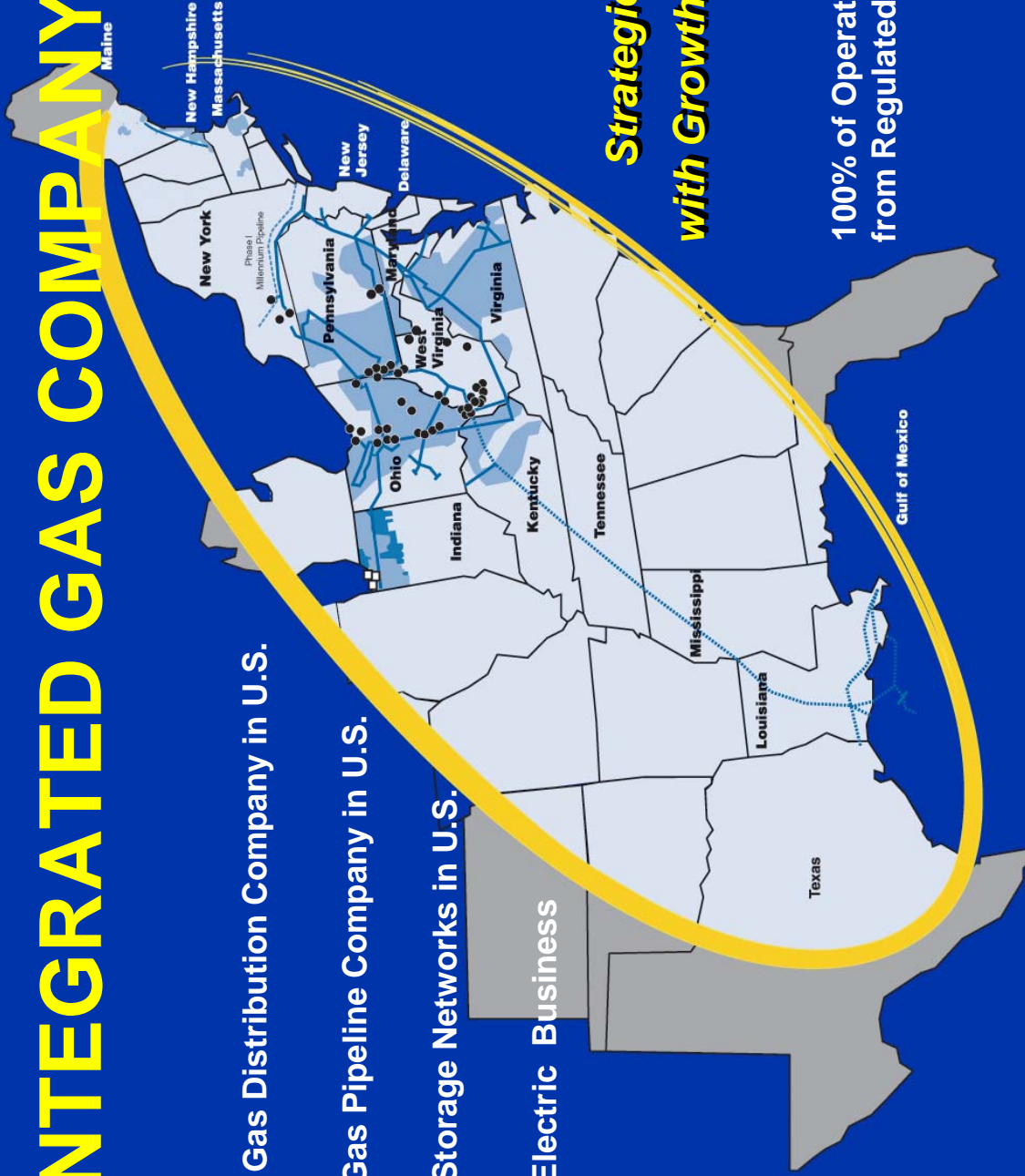
4<sup>th</sup> Largest Gas Pipeline Company in U.S.

One of the Largest Gas Storage Networks in U.S.

Mid Size Regional Electric Business

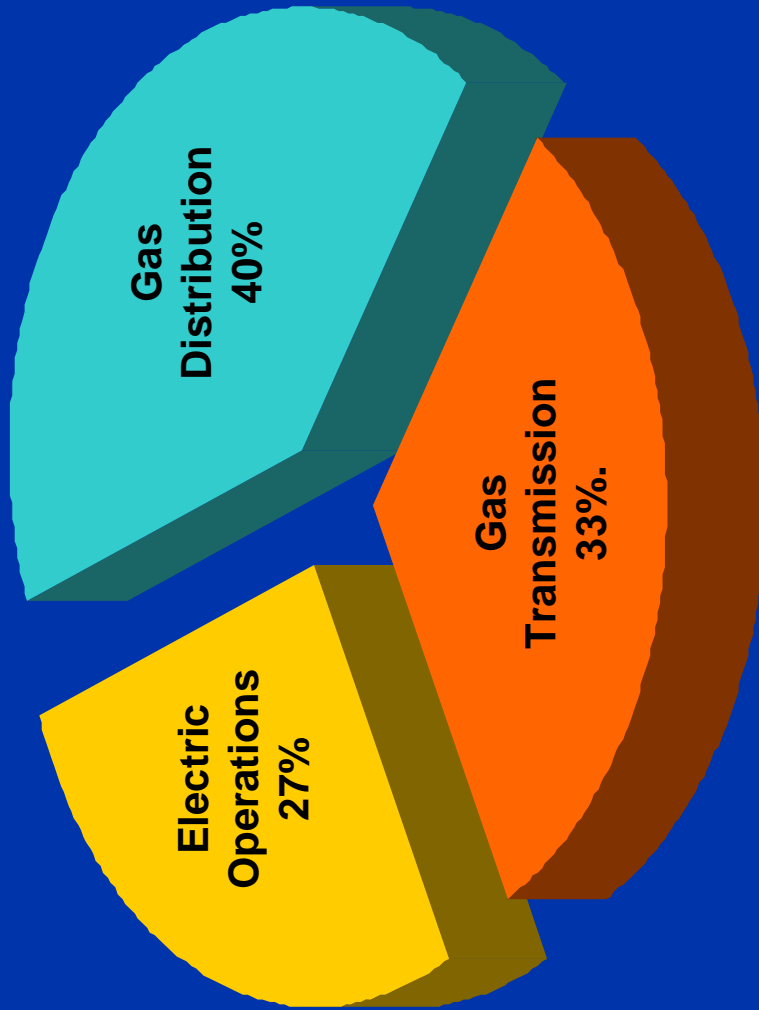
**Strategic Location  
with Growth Opportunities**

100% of Operating Income  
from Regulated Operations



# BALANCED PORTFOLIO

## Operating Income



100% Of Operating  
Income From  
Regulated Businesses

# 2004 BUSINESS FOCUS

## Challenges

- Continue Strengthening the Balance Sheet
- Renew Ohio Gas Choice Program
- Pipeline Re-Contracting



## Results

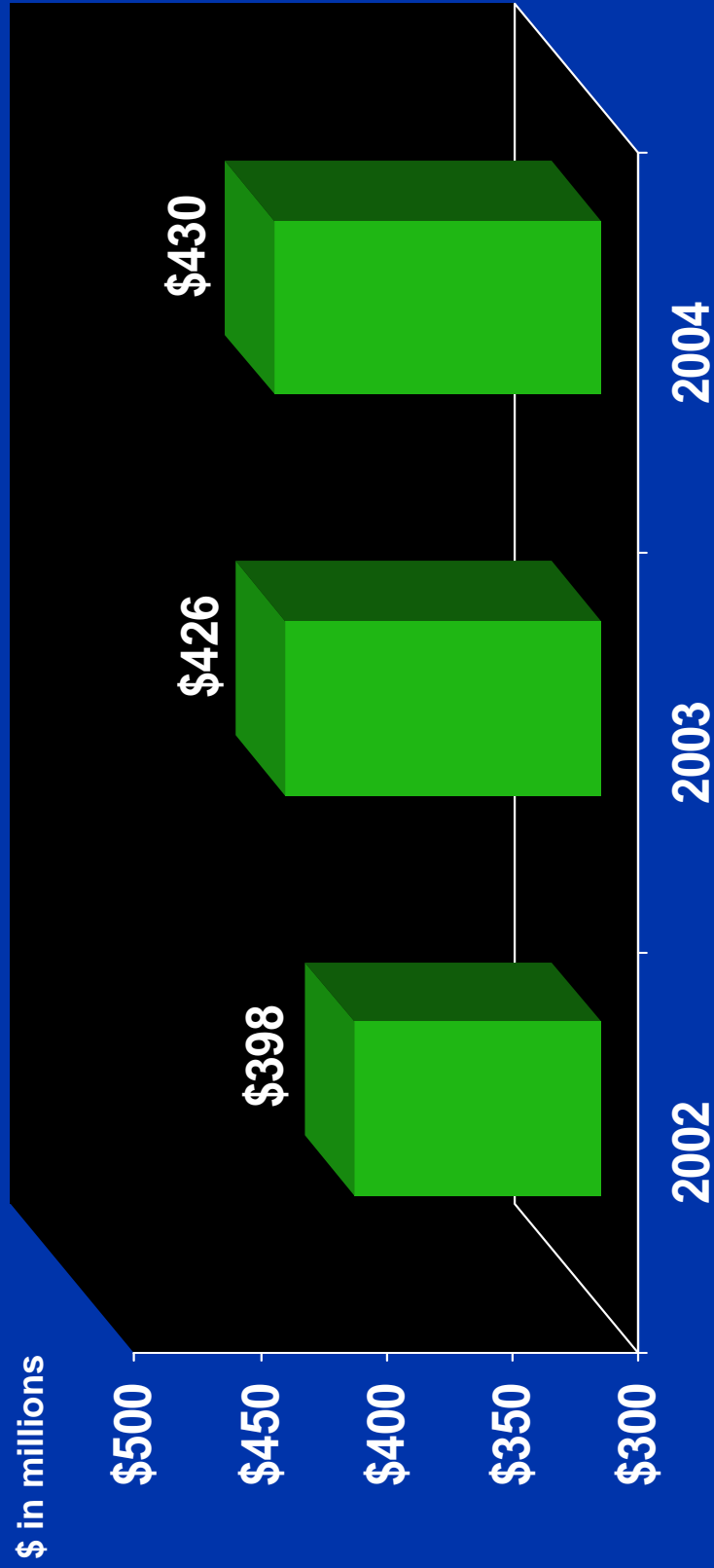
- Reduced Debt and Interest Expense
- Extended Ohio Regulatory Stipulation Through Oct. 2008
- Established Long-Term Pipeline Contracts

# HIGHLIGHTS OF 2004 FINANCIAL PERFORMANCE

- Earnings from Continuing Operations:
  - Income from Continuing Operations was \$430.2 Million or \$1.63 Per Share, Compared to \$425.7 Million or \$1.64 Per Share in 2003
  - Weather Negatively Impacted Gas and Electric Distribution Businesses by Approximately 6 Cents Per Share
  - O&M Costs Essentially Declined Compared to 2003
  - Interest Expense was Reduced by \$60.8 Million or 13 Percent
  - Successful SAILS Remarketing on Nov. 1, 2004

# CONSISTENT EARNINGS

## Income From Continuing Operations

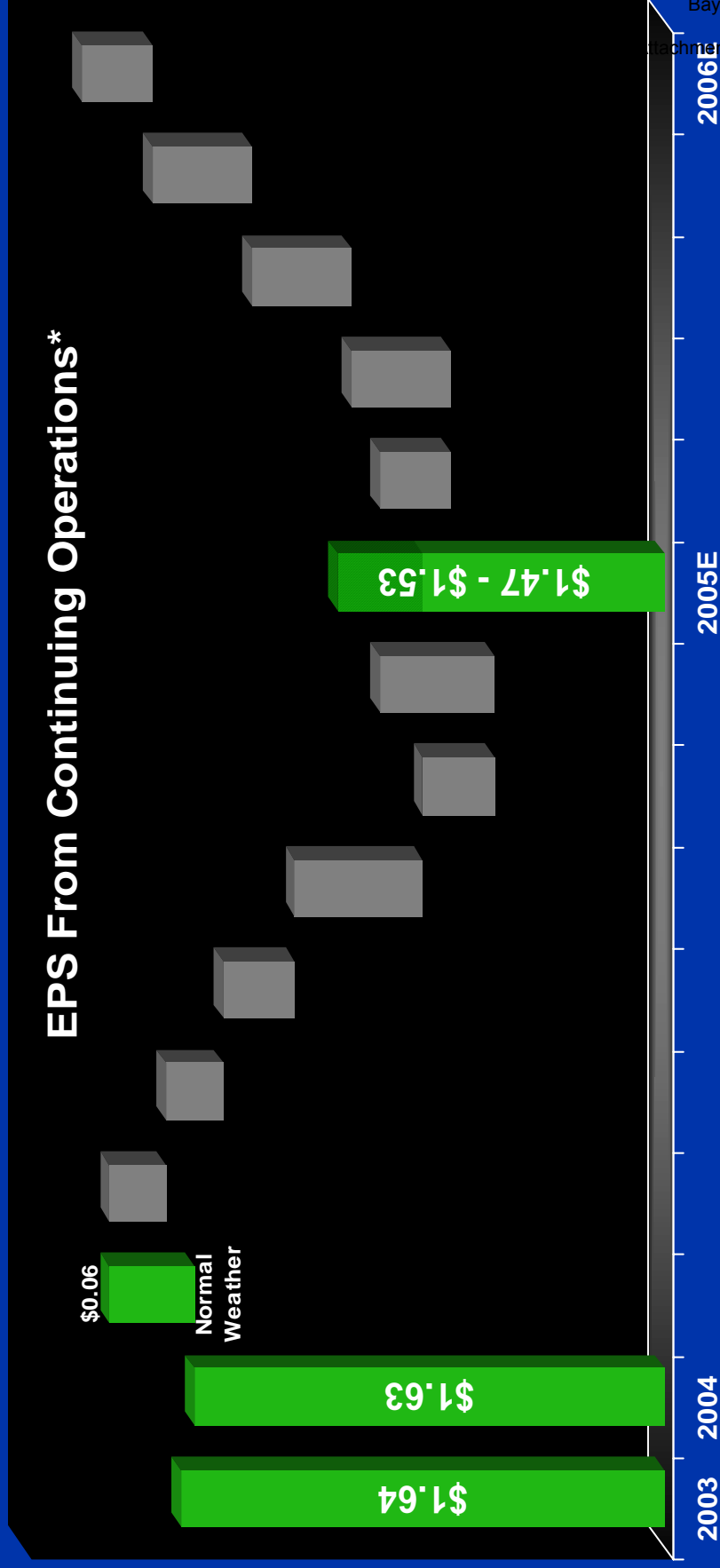


# NISOURCE BUSINESS FOCUS FOR 2005 AND 2006

- Balance Sheet Opportunities
- Whiting Clean Energy Opportunities
- Commercial / Regulatory Initiatives
- Pipeline / Storage Expansion
- Ongoing Expense Management Opportunities

# EXPECTED EPS DRIVERS

## 2005 & 2006



Bay State Gas Company  
D.T.E. 06-31  
Attachment DTE-BSG-1-10 (C)  
Page 215 of 261

Dividend  
Payout  
Ratio\*\*

67% 56%

55% - 60%

\* Some EPS Drivers May Not Include Non-Recurring Costs to Achieve

\*\* Based on Continuing Operations: 2005 is a Targeted Payout Ratio Range





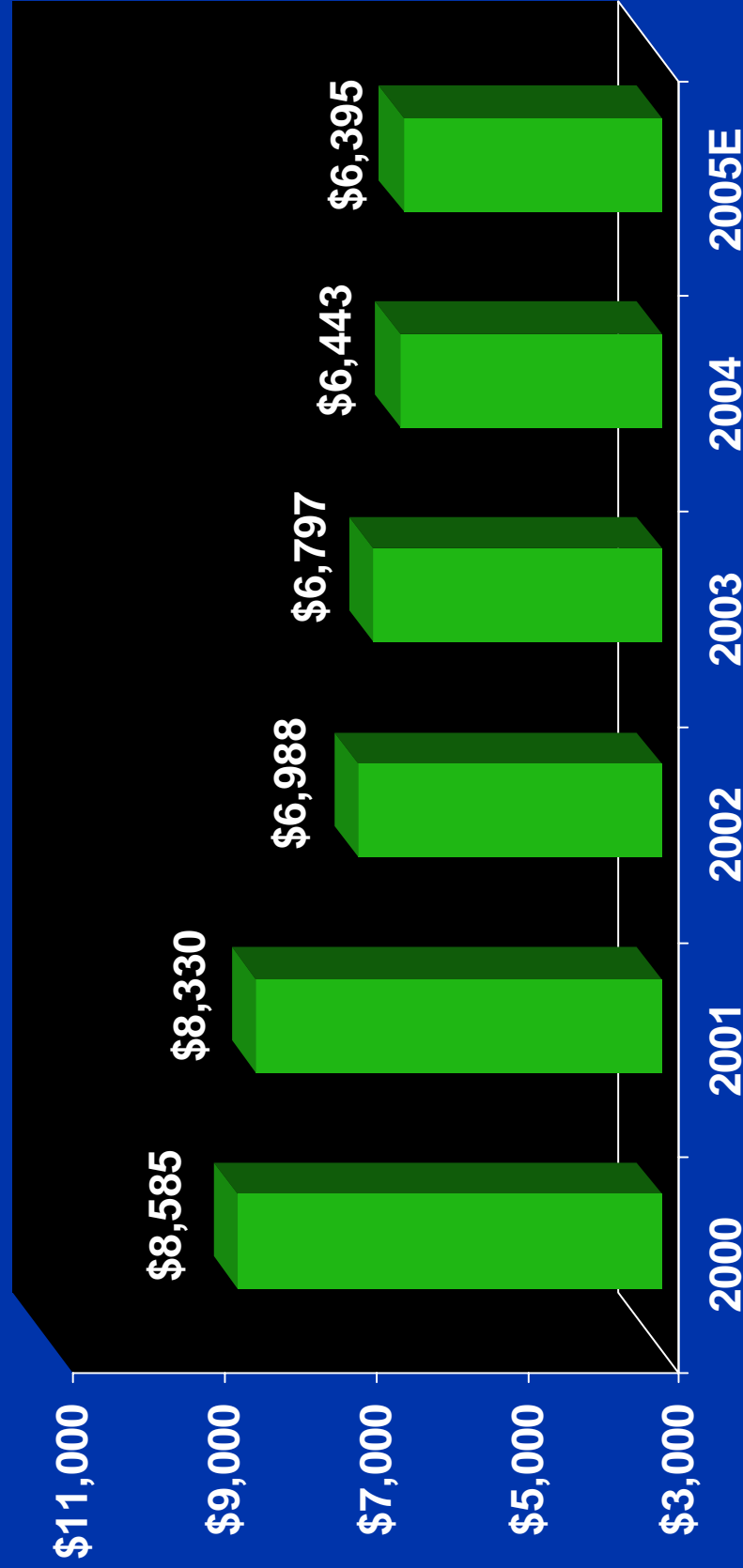
**Mike O'Donnell**  
**Executive Vice President &  
Chief Financial Officer**

# BUILDING A STRONGER CAPITAL STRUCTURE

(\$ in millions)	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
Short Term Debt	\$2,497	\$1,854	\$913	\$686	\$307
Current Maturities	65	411	1,225	118	1,300
Long Term Debt	6,023	6,065	4,850	5,993	4,836
Total Debt	\$8,585	\$8,330	\$6,988	\$6,797	\$6,443
Preferred Securities	478	477	430	81	81
Shareholders' Equity	3,409	3,469	4,175	4,416	4,787
Total Capitalization	\$12,472	\$12,276	\$11,593	\$11,294	\$11,311
Debt / Capitalization	68.8%	67.9%	60.3%	60.2%	57.0%

# CONTINUING DEBT REDUCTION

**TOTAL DEBT**  
(\$ in millions)



# FINANCING OPPORTUNITIES & CHALLENGES

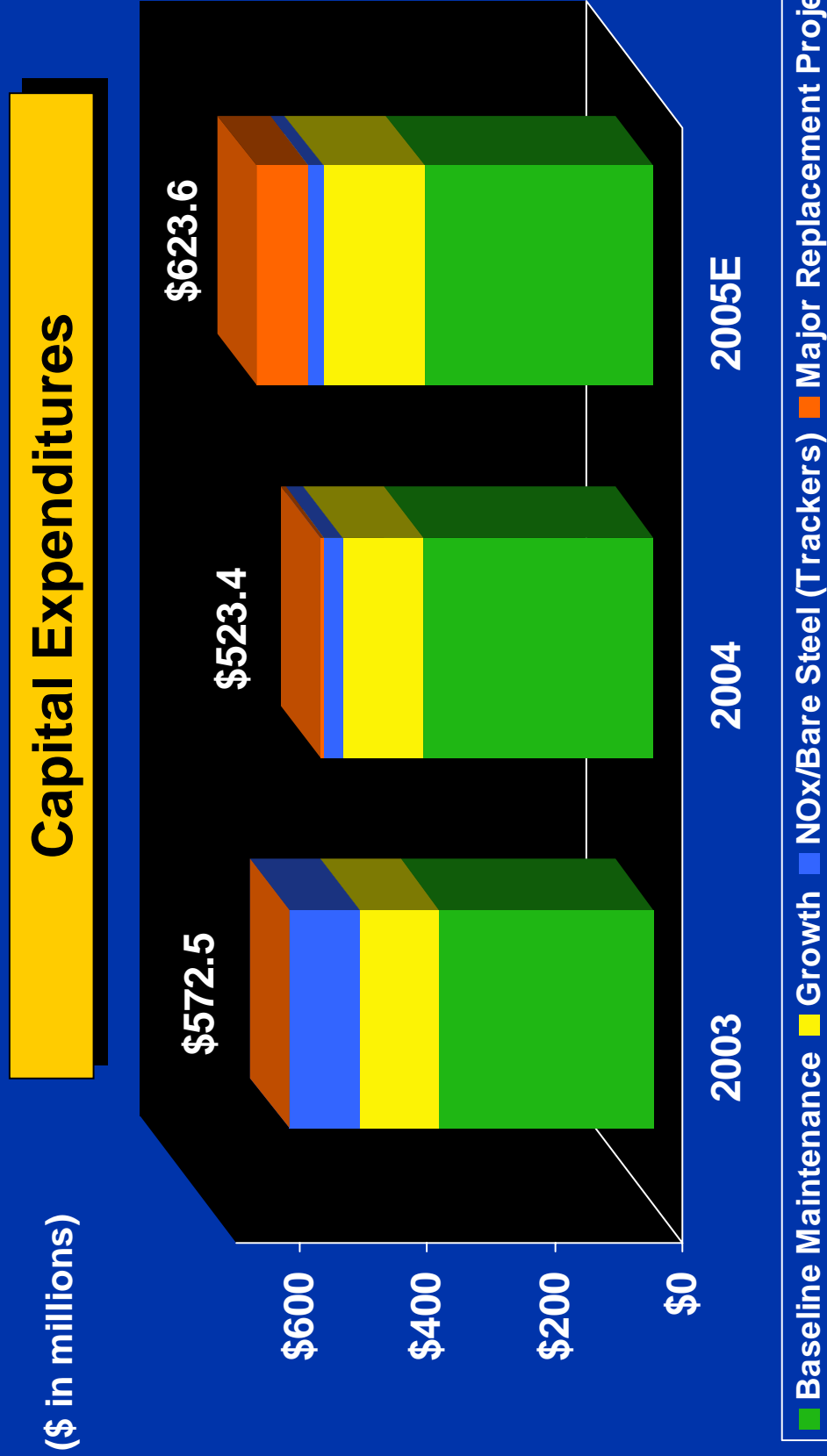
- **Interest Expense Management:**
  - Rising Short Term Interest Rates Have a Negative Impact on 2005 Interest Expense (4 Cents Per Share)
    - Changes in Working Capital Help Minimize Impact
  - Maturity Schedule Opportunities in 2005 for 2006 and Beyond
    - Forward Starting Swaps on \$900 Million Save Approx. \$17.6 Million of Interest Expense in 2006 and Beyond
- **Balance Sheet Initiatives:**
  - CEG Early Call Refinancing Opportunity of \$1.1 Billion
    - 2005 One-time Expense of Approx. \$92 Million
      - \$78 Million Non-Cash FMV Adjustment
      - \$14 Million Early Cash Call Premium
  - Annual Cash Savings of Approx. \$15 - \$20 Million Starting in 2006
    - Additional Book Earnings of \$8 - \$9 Million Per Year
- **Cash From Operations Exceeds Cash Requirements**

# NISOURCE CASH FLOW

	<u>2004</u>	<u>2005E</u>
Net Income From Continuing Operations	\$430.2	\$403.5
DD&A	509.7	545.5
Deferred Taxes	97.5	(83.9)
CES Deferred Revenues	(22.3)	(22.8)
Other Non-Cash	44.6	3.9
Funds From Operations	1,059.7	846.2
Change in Working Capital	(33.7)	102.8
Cash From Operations	\$1,026.0	\$949.0
Requirements:		
Capex & Other Investments *	(519.1)	(633.0)
Common Dividend	(243.1)	(248.4)
Cash Avail. for Debt Paydown	\$263.8	\$67.6
Proceeds From SAILS	144.4	-
Other Financing Activities	6.3	-
<b>Total Debt Paydown</b>	<b>\$414.5</b>	<b>\$67.6</b>

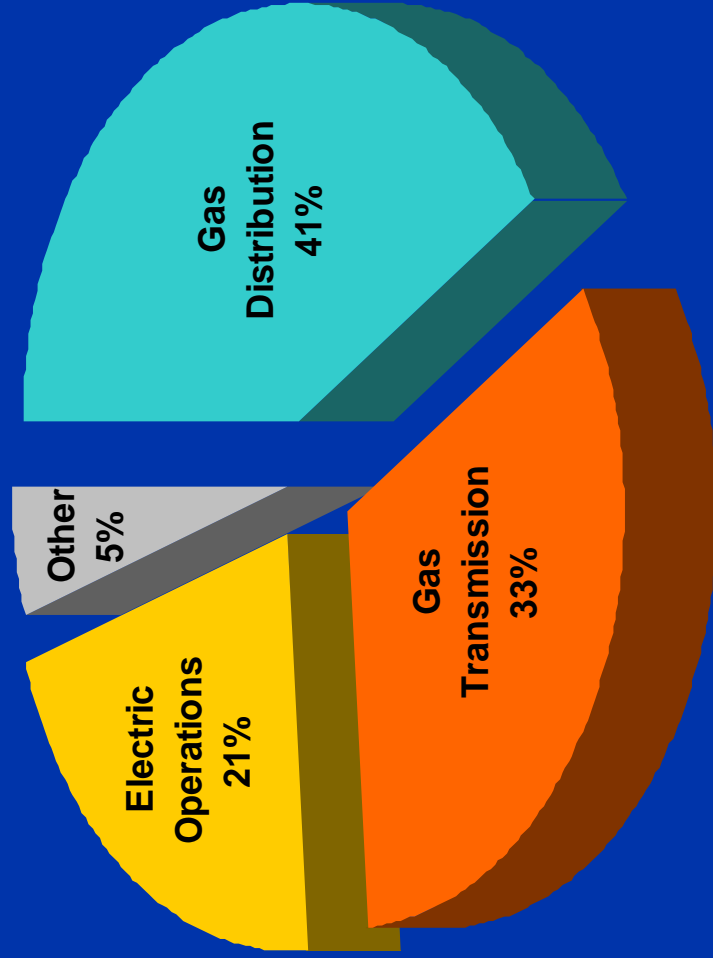
\* May differ from capital program due to items such as proceeds from assets sales and non-cash items ... AFUDC, etc

# DEMONSTRATING CAPITAL DISCIPLINE



# WHILE PROVIDING FOR GROWTH FROM INTERNAL SOURCES

## 2005E Capital Expenditures \$623.6 Million



**\$159.1 Million Growth Capex  
2005E**

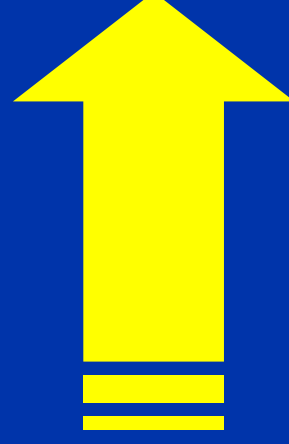
- 57% Gas Distribution
- 29% Gas Transmission
- 13% Electric Operations
- 1% Other

# IMPROVING RATING AGENCY METRICS

**NiSource**      Moody's      S & P      Fitch  
Stable Credit Ratings      Baa3      BBB      BBB

## *Improving Metrics*      2001

Pre-Tax Interest Coverage      1.9x  
Total Debt to Total Capitalization      68.1%  
FFO Interest Coverage      2.2x  
FFO to Total Debt      7.7%



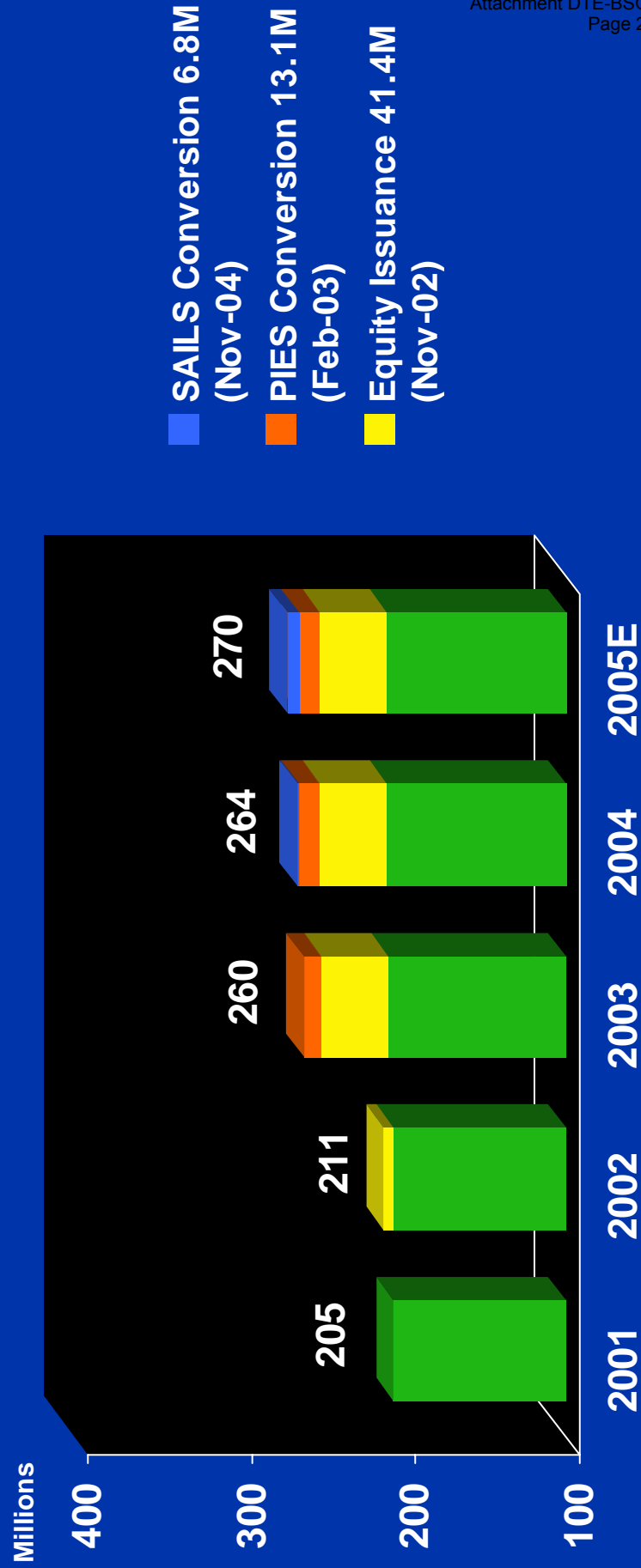
2004      2005E

2.8x      2.6x  
57.0%      56.0%  
3.8x      3.1x  
16.5%      13.2%

\*Based on GAAP Calculations, impact of off-balance sheet leases not included

# BASIC COMMON SHARES

## Average Shares Outstanding



# EXPECTED EPS DRIVERS

## 2005 & 2006



Bay State Gas Company  
D.T.E. 06-31  
Attachment DTE-BSG-1-10 (C)  
Page 225 of 261

Dividend  
Payout  
Ratio\*\*

67% 56%

55% - 60%

\* Some EPS Drivers May Not Include Non-Recurring Costs to Achieve

\*\* Based on Continuing Operations: 2005 is a Targeted Payout Ratio Range



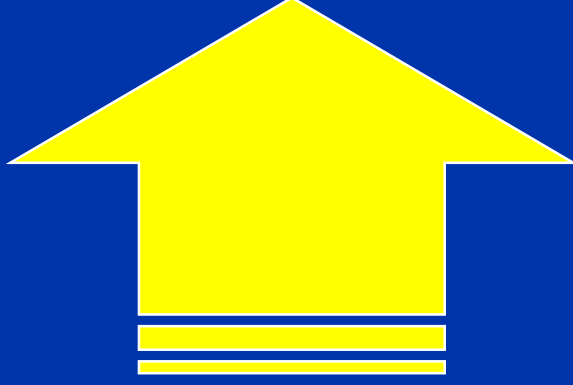


**Bob Skaqq**

***President***

# NISOURCE GROWTH PLATFORM

- Operating Cash Management
- Commercial / Regulatory Initiatives
- Pipeline Growth
- Expense Management

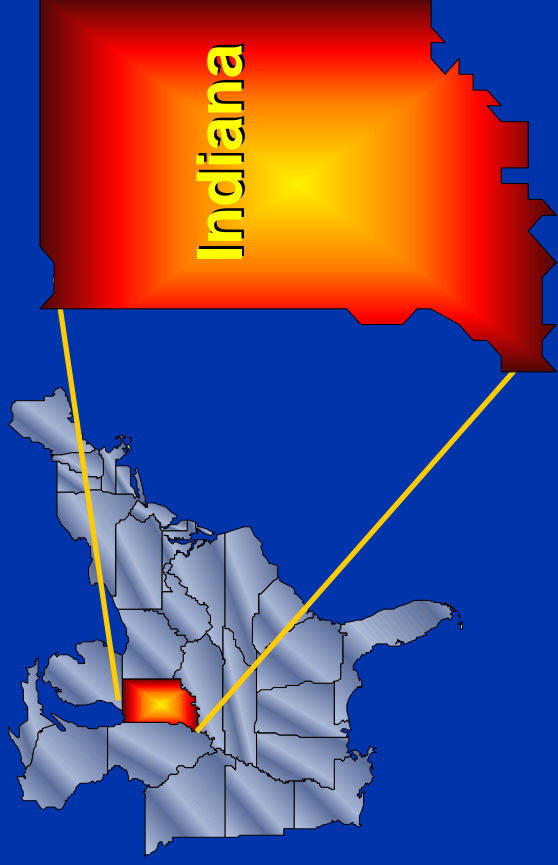


Sustainable  
Long-Term  
Growth

# COMMERCIAL / REGULATORY INITIATIVES

- Organic Distribution Company Growth
- Rate Base Growth
- Asset (Gas Supply) Optimization
- Retail Services
- Regulatory Initiatives / Trackers

# ELECTRIC BUSINESS PRODUCES STRONG OPERATING INCOME



- Vertically Integrated Utility
  - Steel/Steel Related Businesses are Operating Near Capacity
  - Mild Summers Past Few Years
  - Customer Growth at Over 1%/Yr
- Reached Agreement with the City of Gary for the Sale/Closing of the D. H. Mitchell Generating Station (500 MW)
- Evaluating Bids for Additional Gas Fired Dispatchable Capacity
- Awaiting IURC Decision on Purchased Power Transmission Tracker (PPTT) Proposal

## Northern Indiana Public Service Company

- 443 Thousand Customers
- Sales = 18,000 GWh Annually
- Low-Cost Portfolio of Coal-Fired Generation (3,059 MW)
- SO<sub>2</sub> and NO<sub>x</sub> Compliant

Bay State Gas Company

D.T.E. 06-31

Attachment DT BSG-1-10 (C)

Page 229 of 261



# WHITING CLEAN ENERGY (WCE)

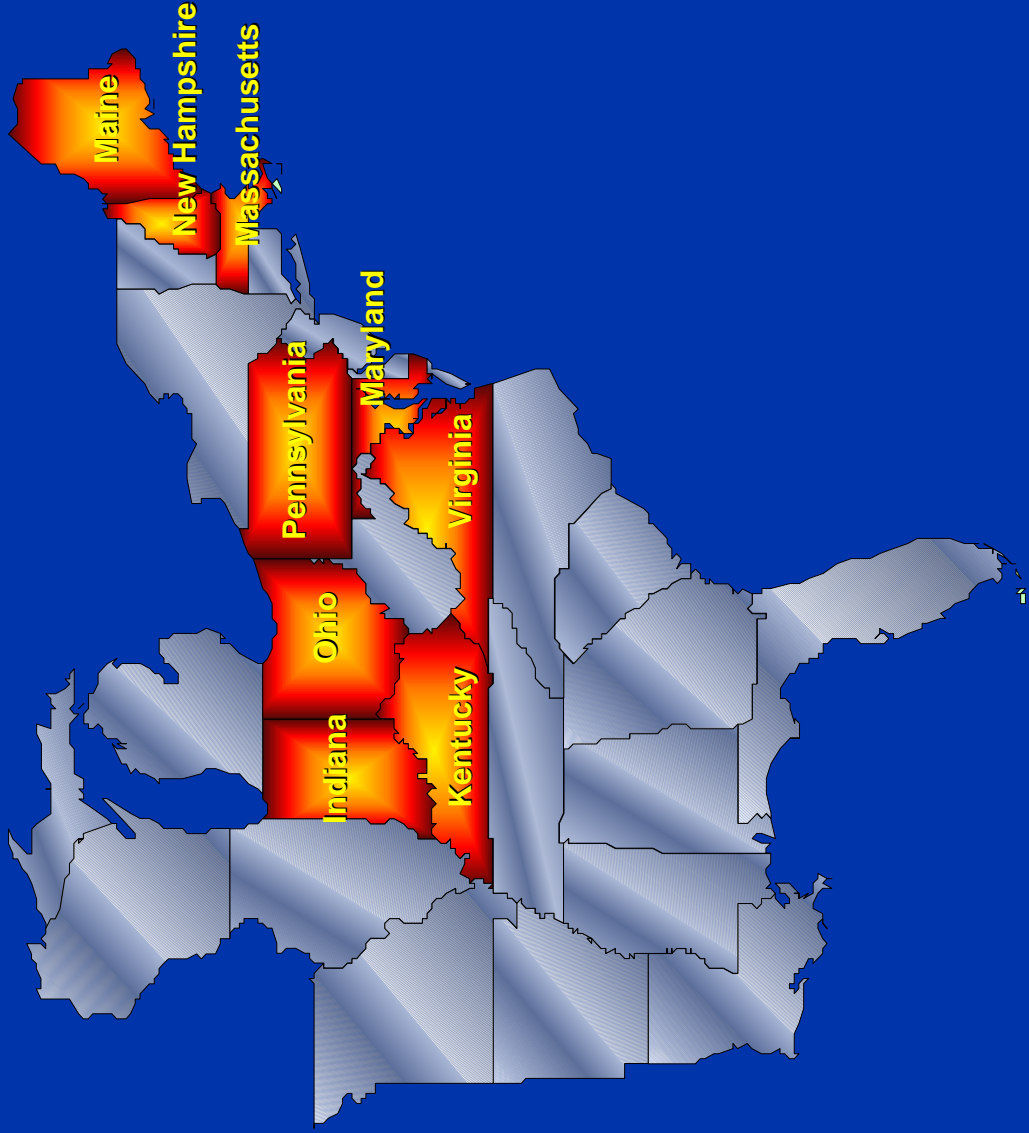


## Whiting Clean Energy (WCE)

- Net 525 MW Combined Cycle Gas Cogeneration Facility, capable of producing 2.2M lbs/hr of process steam
- 2 GE Frame 7 - 166MW each & 1 Steam Turbine
  - 213MW With Heat Rate of Approx. 8000
- Merchant Plant Produces Electricity to Sell in the Wholesale Market and Provides Steam to BP Oil Refinery
- Located on BP Oil Property in Whiting, IN

- Finalize New Steam Contract with BP Oil Refinery
- Submitted Bid to Supply Dispatchable Power to NIPSCO (RFP)
- Sell Power into the Midwest Wholesale Market
- Target is to be Operating Income Neutral in 2005

# NISOURCE GAS DISTRIBUTION

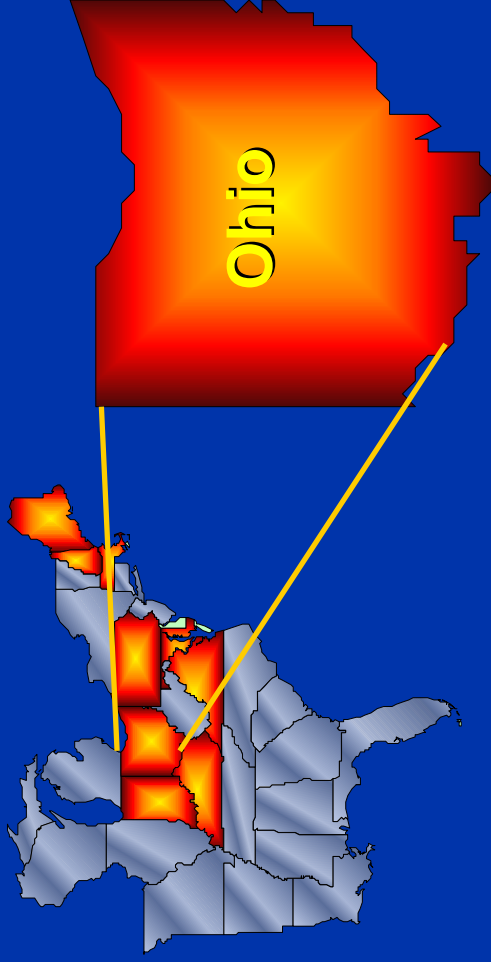


- Third Largest Gas Distribution Company in the U.S.
  - 3.3 Million Customers – 9 States and Growing at a Rate of 1.5% Per Year
  - Operating as One Distribution Business
- Industry-Leading Scale and A Major Market Leader in States Served
  - Added over 57,000 Customers in 2004
  - Delivered Nearly 900 Bcf Gas in 2004
- Favorable Overall Regulatory Environment
  - Customer Choice in all states
- Strong Regulatory Relationships
  - Win / Win Opportunities
- Vertical Integration With Transmission/Storage in Major Gas Markets

Bay State Gas Company  
DTE-BG-1-10 (C)  
Page 231 of 261



# GAS DISTRIBUTION OPERATIONS REVIEW



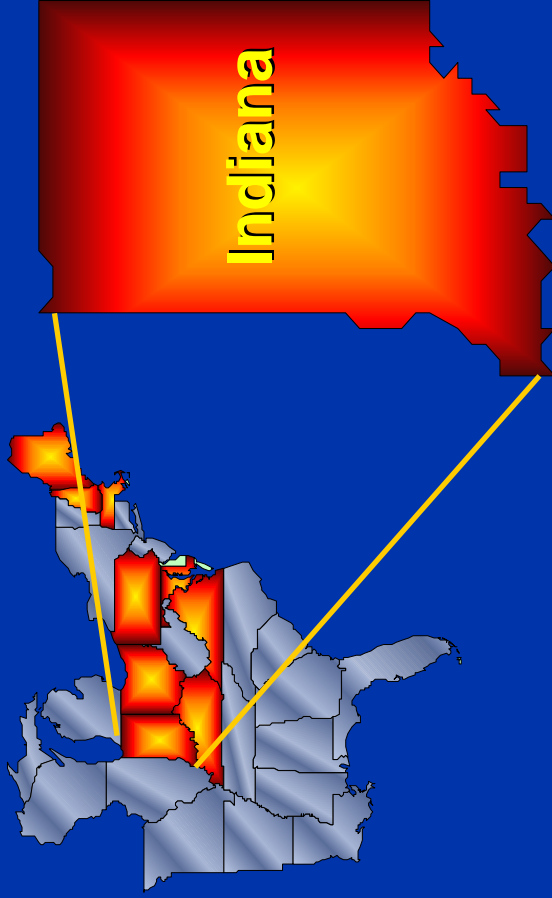
- Bad Debt Tracker
- New Regulatory Stipulation
  - Capex Deferral
  - Gas Supply Optimization
  - Negative Impact of 5 Cents Per Share in 2005
  - Expect to Recover Negative Impact Over The Next 3 Years
- Newly Approved Monthly GCR
- Retail Services

## Columbia of Ohio

- 1.4 Million Customers
- 320 Bcf Throughput
- Customer Choice – Regulatory Stipulation Through Oct. 2008
- Stable C&I Markets

Bay State Gas Company  
T.E. 06-31  
Attachment DTE-BG-1-10 (C)  
Page 232 of 261

# GAS DISTRIBUTION OPERATIONS REVIEW



- Extended Alternative Regulatory Plan
- Gas Supply Optimization
- Continue Robust Retail Services
- New Winter Warmth Program

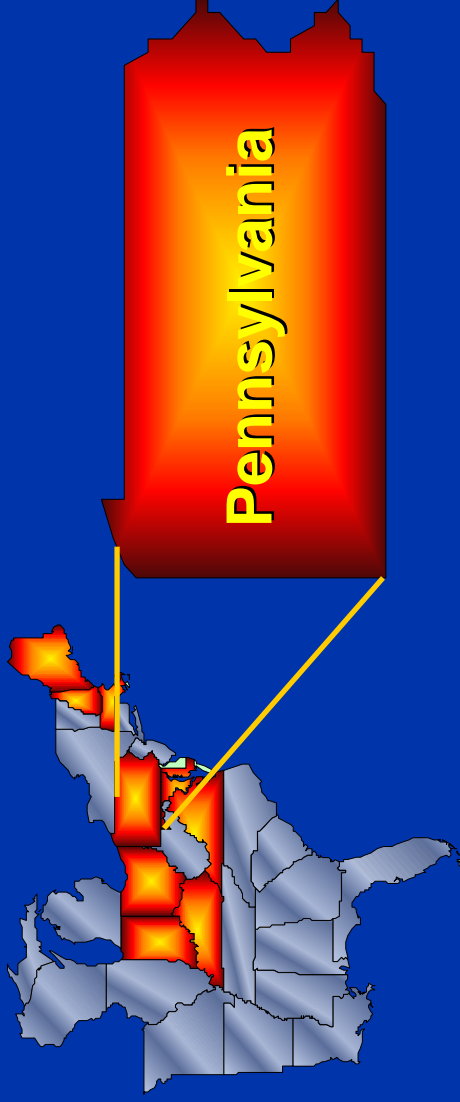
## Northern Indiana Public Service Company

### Northern Indiana Fuel & Light

#### Kokomo Gas

- 776 Thousand Customers
- 270 Bcf Throughput
- Customer Choice

# GAS DISTRIBUTION OPERATIONS REVIEW

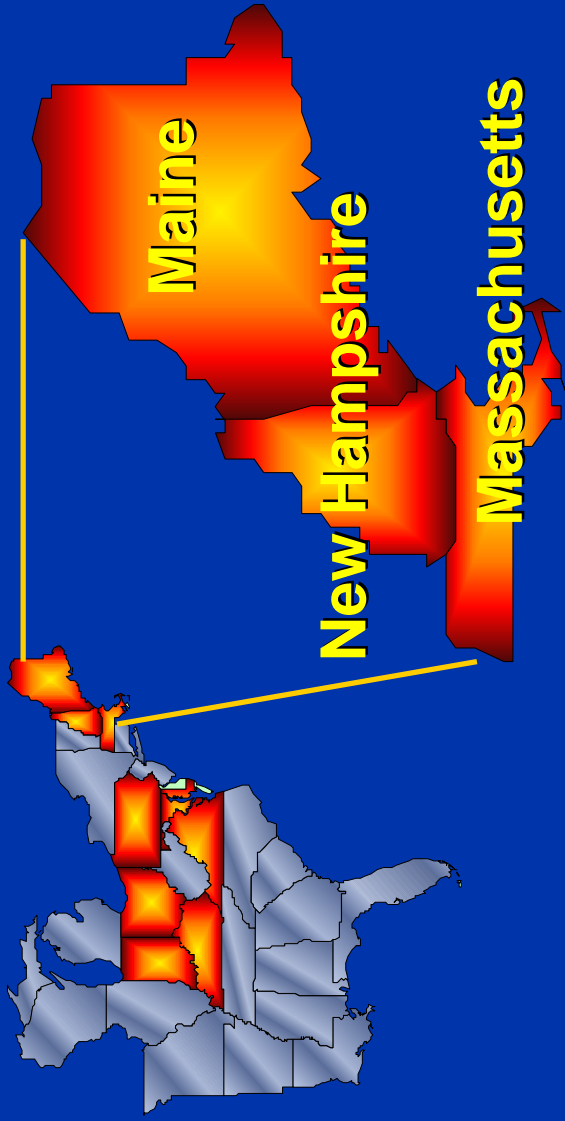


## Columbia Gas of Pennsylvania

- 401 Thousand Customers
- 90 Bcf Throughput
- Customer Choice

- Gas Supply Optimization
- Retail Services
- Customer Assistance Plan
- Low Income Legislation
- Rate Case?

# GAS DISTRIBUTION OPERATIONS REVIEW



## Bay State Gas Company Northern Utilities

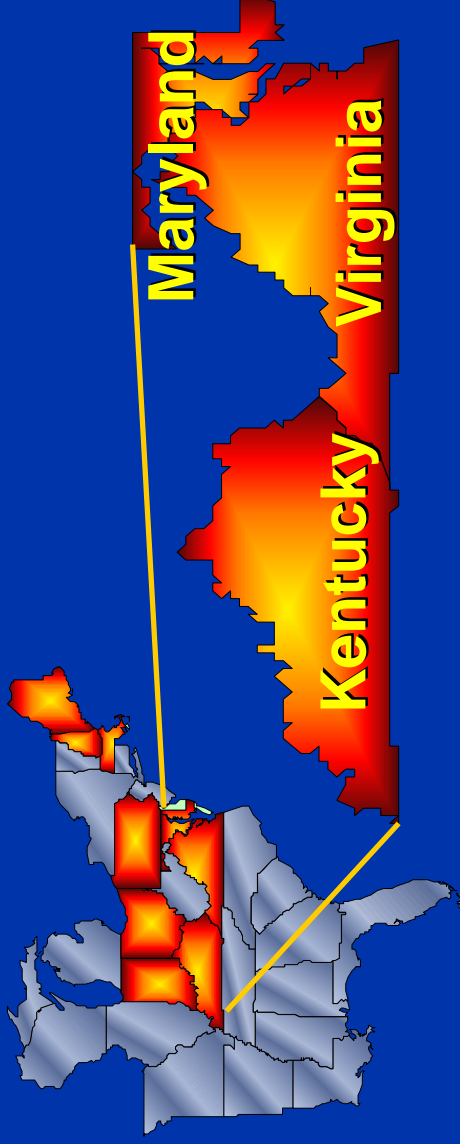
- Customers
  - Mass. - 279 Thousand
  - N.H. - 26 Thousand
  - Maine - 24 Thousand
- 80 Bcf Throughput
- Customer Choice

- Rate Case in Massachusetts
  - Bare Steel Tracker
  - Performance Based Rates
- Commercial and Industrial Growth
- Retail Services

Bay State Gas Company  
D.T.E. 06-31  
Attachment DTE-BSG-1-10 (C)  
Page 235 of 261



# GAS DISTRIBUTION OPERATIONS REVIEW



## Columbia Gas of Virginia

## Columbia Gas of Kentucky

## Columbia Gas of Maryland

- Customers
  - Virginia - 209 Thousand
  - Kentucky - 141 Thousand
  - Maryland - 32 Thousand
- 120 Bcf Throughput
- Customer Choice

- Completed 2002 Rate Case in Kentucky
- Negotiating KY Choice Extension
- Strong Residential, Commercial and Industrial Customer Growth in Virginia
- Retail Services

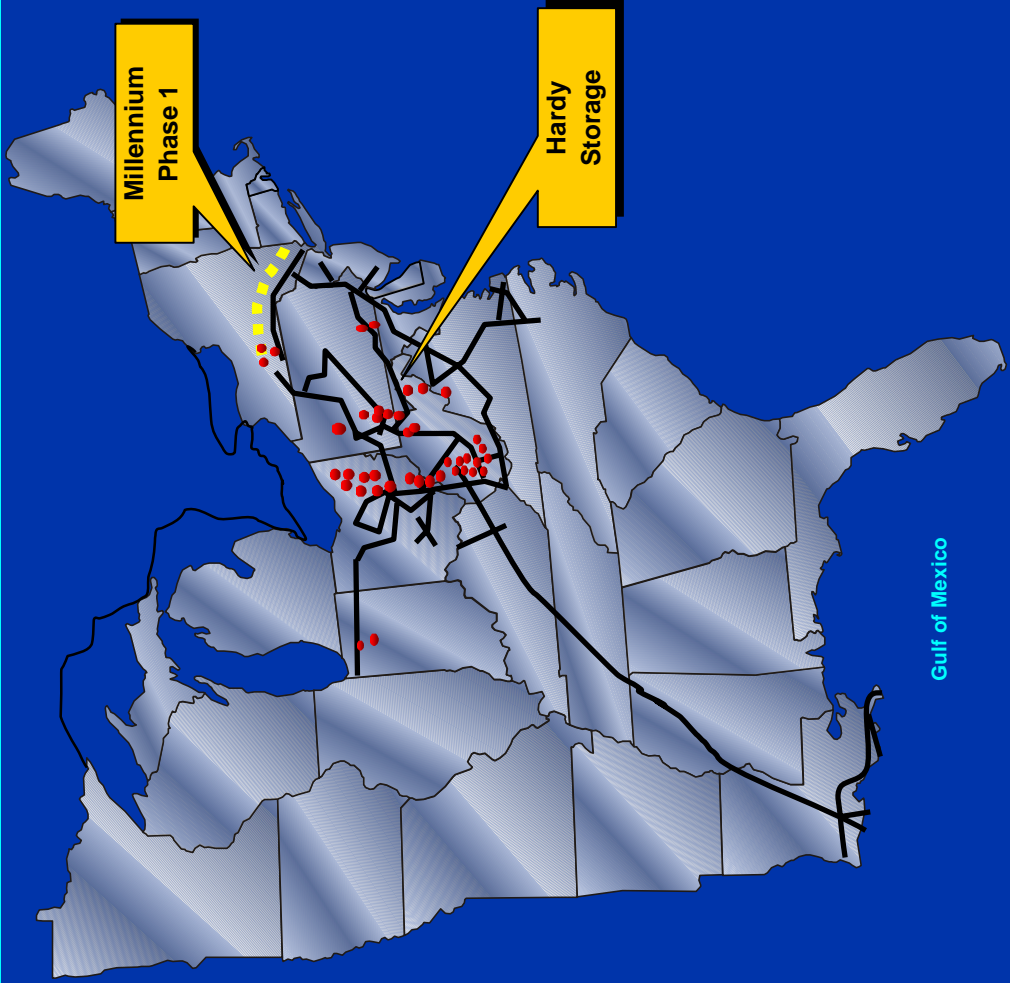
Berry State Gas Company  
D.T.E. 06-31  
Attachment DTE-BSG-1-10 (C)  
Page 236 of 261



# PIPELINE INITIATIVES

- Contract Re-Subscription
- Storage Utilization
- Appalachian Production Growth
- System Pipe / Storage Growth
  - Relieve East Coast Gas Market Constraints
- Green Field Growth

# LEVERAGING OUR TRANSMISSION / STORAGE

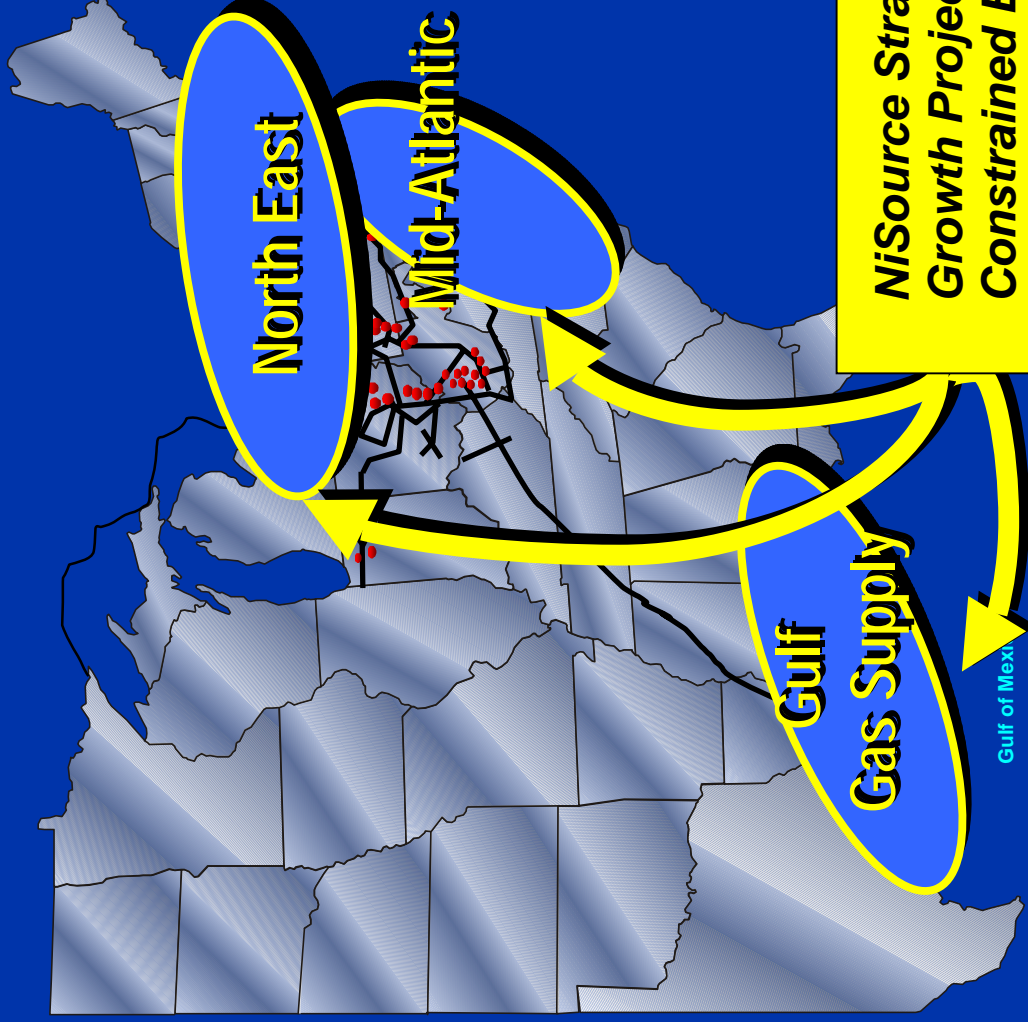


- One of the Largest Integrated Systems in U.S.
  - Columbia Gulf / TCO
    - Lowest Cost Gulf Coast Transporter
    - 7.5 Bcf/day Peak Day Capacity
    - Supply Customers in 19 States
  - Integrated Storage and Access to Supply
  - Footprint Overlays Strongest US Gas Market
  - Largest Market Area Storage
- Pipeline Contracts Renewed in 2004
  - Renegotiated Contracts have an Avg. Term of 7 Years
  - Re-Contracting has Negative Impact of 9 Cents Per Share: Represents 5% of Total Segment Net Revenues
- Supportive Regulatory Environment
- Prime Pipeline Footprint can be Expanded to Critically Short East Coast Gas Markets
  - Current Expansion Projects include New Millennium Pipeline and Hardy Storage

Bay State Gas Company  
DTE, E. 06-31  
Attachment DTE-BSP-1-10 (C)  
Page 38 of 261



# TRANSMISSION / STORAGE MARKETS

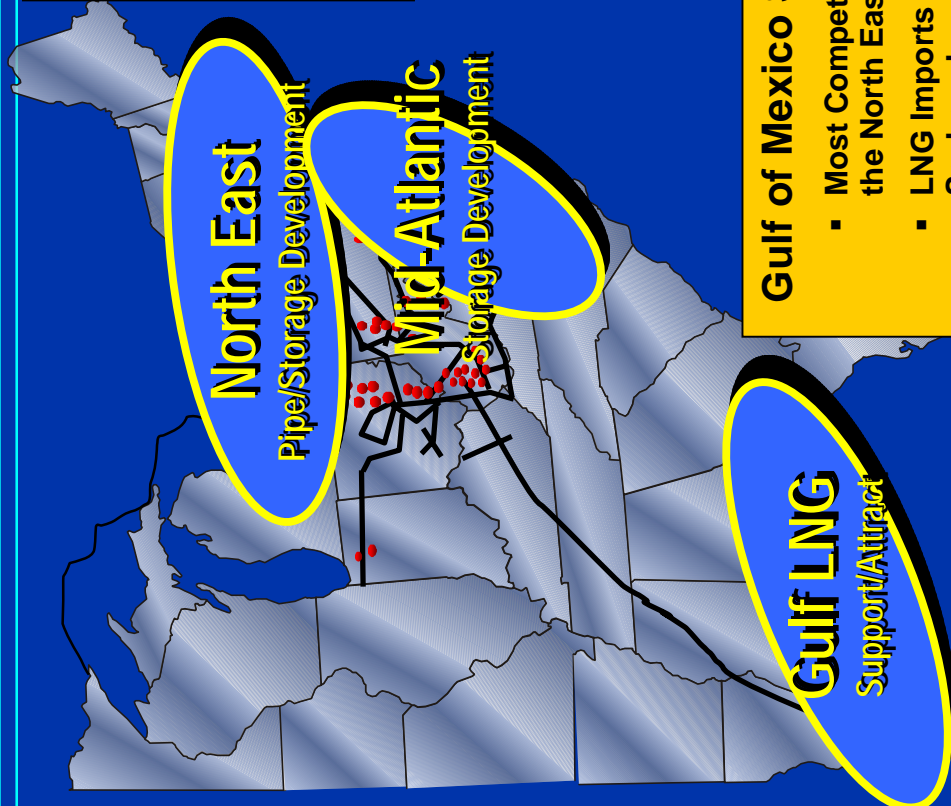


## Market Analysis Indicates

- Gulf and Canadian Gas Production Flat to Declining
  - North East Market has Highest Gas Prices in the US Because of Infrastructure Restrictions
  - Existing Storage Fully Utilized in North East and Midwest Markets
  - Additional Storage in North East and Mid-Atlantic Markets Could Relieve High Gas Prices and Volatility
- ## Identified Pipeline and Storage Expansion Opportunities that Target Constraints
- Develop New Market Access Through East Coast Header Expansions
  - Focus Market Development on New Eastern Storage Capacity/Services
  - Develop Millennium Pipeline as Northern Storage Delivery
  - Capitalize on LNG Imports in The Gulf of Mexico and East Coast To Fill Existing Pipes

**NiSource Strategic Infrastructure Growth Projects will Focus on Constrained East Coast Gas Markets**

# TRANSMISSION / STORAGE MARKETS



## North East Market

- Space Heating Market has Low Saturation Levels
- Newly Constructed Gas Fired Power Plant Additions Create Additional Demand on Current Gas Infrastructure- Over 1/3<sup>rd</sup> of the NE Generation Capacity is Natural Gas Fired
- New England Gas Fired Generation Grew by 23% Since 2000
- Supply Inadequate to Meet Market Demands - Additional Pipe and Storage Capacity Required

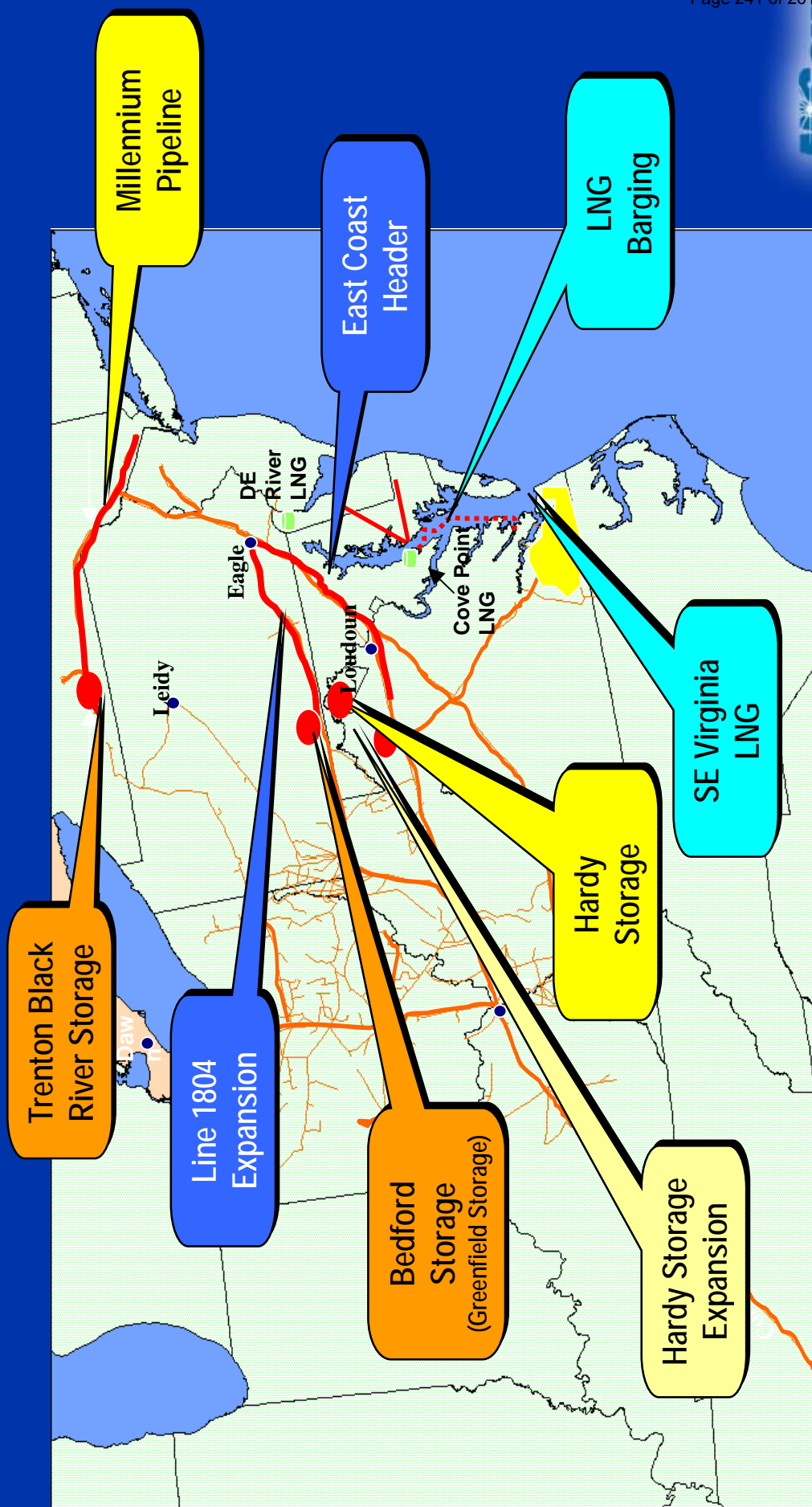
## East Coast and Mid-Atlantic Markets

- System Constraints and Increasing Gas Demand are Creating High Gas Prices During Peak Winter
- Opportunity Exists for Additional Eastern Storage / Pipeline Extensions
- Cove Point and Crown Landing LNG Need Storage for Market Access

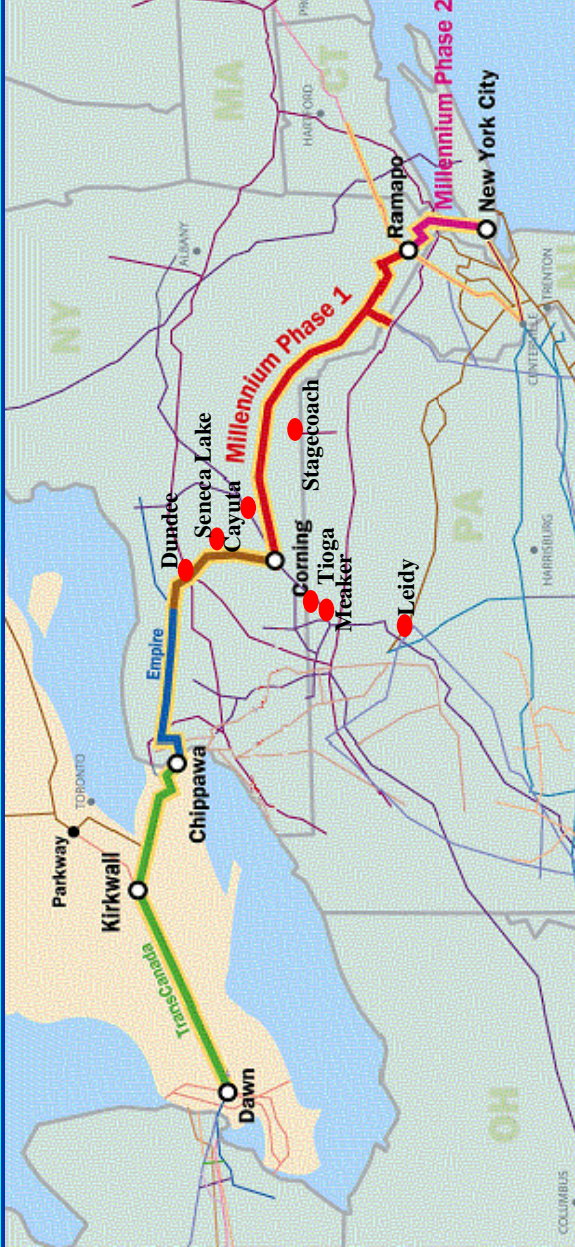
## Gulf of Mexico Supply / LNG

- Most Competitively Priced Pipeline Transportation from the Gulf to the North East
- LNG Imports in the Gulf of Mexico Seem More Likely Than on Eastern Seaboard
- Proposed and Approved Projects Offer Many Opportunities for Columbia Gulf

# NISOURCE INFRASTRUCTURE EXPANSION OPPORTUNITIES



# NEW MILLENNIUM PIPELINE



## Millennium Pipeline – Phase 1

- Capacity to Transport 500,000 Dkth/day
- Partners: Columbia Gas Transmission, KeySpan, & DTE Energy
- Primary Shippers: Columbia Gas Transmission, KeySpan, & Others
- Total Capital Requirement - Approx. \$400 - \$500 Million

## *Two Phased Approach:*

### Phase 1

- 186 miles of 30 inch Pipeline from Corning, NY to Ramapo, NY
- Linking Empire State Pipeline with Energy Markets in Eastern New York
- Provides Supply Link to Canadian and New York Production / Storage as well as Additional U.S. Pipeline Supply
- Nearly 100% of Route Utilizes Existing Rights-of-Way
- In Service by Heating Season of 2006-07

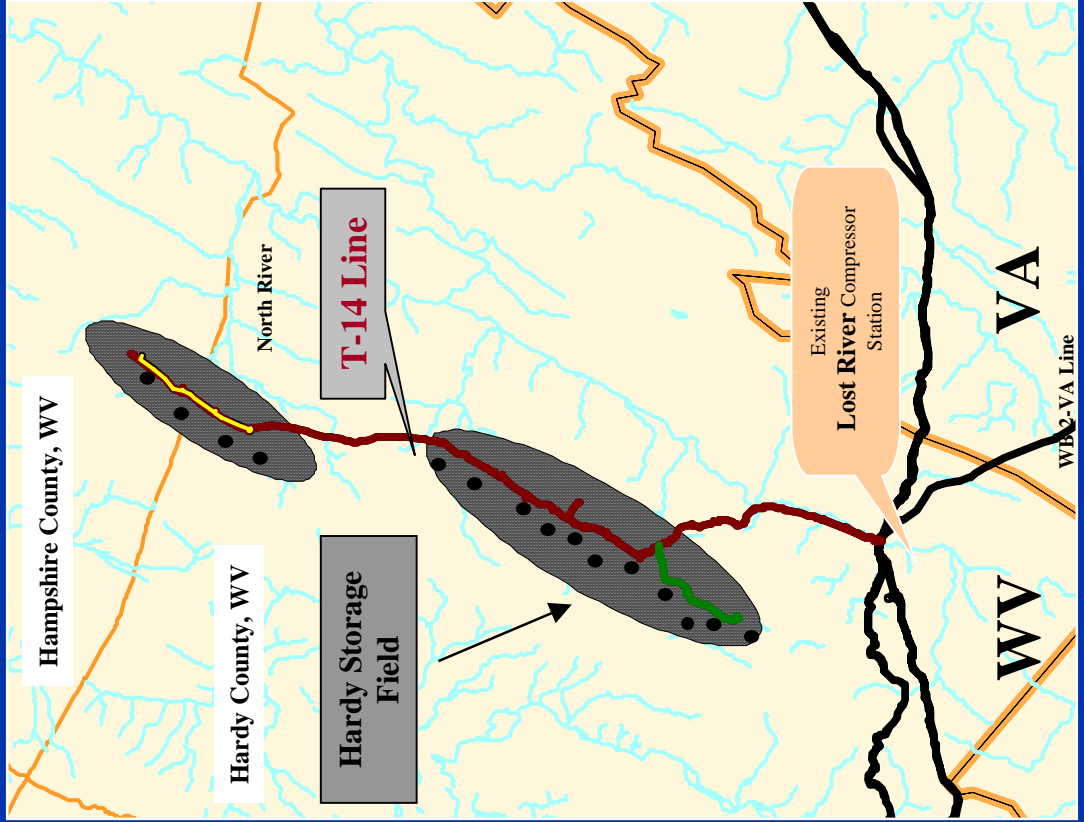
### Phase 2

- Completes Millennium to New York City
- Key to Meeting Future Power Generation Load in New York City and New England
- Completed as Economics Allow

Empire State Gas Company  
DTE, E. 06-31  
Attachment DTE-BSP-1-10 (C)  
Page 42 of 261



# HARDY STORAGE



- Provides Needed Gas Storage Capacity for Critically Short East Coast Gas Markets
- Operational by Spring 2007
- Conversion of a Depleted Natural Gas Production Field
- Successful Open Season – Full Subscription Under Long-Term Contracts
- Opportunity for Hardy Phase II

## Hardy Storage

- Partners: Columbia Gas Transmission & Piedmont Natural Gas
- 12 BCF of Storage Capacity
- 176 Dth/day Withdrawal Capability
- Total Capital Requirement \$100 - \$150 Million

# NISOURCE'S STRATEGIC INTENT

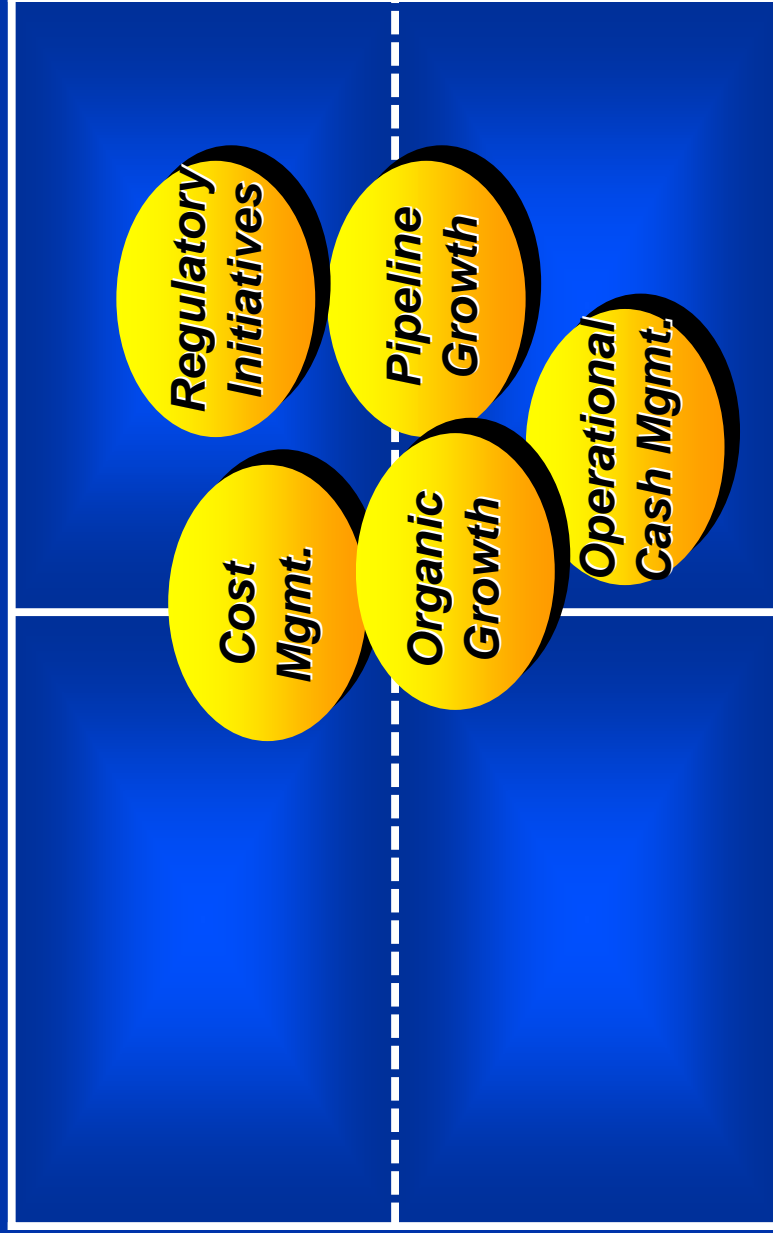
**Target:** Sustainable Long-Term Growth

**Drivers:** Low Risk Regulated Investments

- Thoughtful Regulatory Programs
- Expense Management
- Ongoing Financial Management

# SUSTAINABLE GROWTH MANAGEABLE RISK

*Risk*



*Value*

# EXPECTED EPS DRIVERS

## 2005 & 2006



Dividend  
Payout  
Ratio\*\*

67%

56%

55% - 60%

\* Some EPS Drivers May Not Include Non-Recurring Costs to Achieve

\*\* Based on Continuing Operations: 2005 is a Targeted Payout Ratio Range

Bay State Gas Company  
D.T.E. 06-31  
Attachment DTE-BSG-1-10 (C)  
Page 246 of 261





**Gary Neale**

***Chairman & Chief Executive Officer***

# FURTHER EXPENSE MANAGEMENT INITIATIVES

- Most Corporate Functions have been Consolidated in Our Corporate Business Services Group
- Reduced O&M Expenses by Over \$200 Million the Past 4 Years
- Opportunities that Remain for Further Expense Reduction Require a Transformation of Corporate Processes and Investment in Technology

# TRANSFORMATION OPPORTUNITIES

- Outsourcing may be Part of a Comprehensive Approach to Capture this Opportunity (Annual Operating Costs of Approximately \$150 - \$200 Million) Including Areas Such as IT and Supply Chain .....
- Currently a Large User of Outsourcing in Our Day to Day Activities
- Outsourcing Typically Saves 20% to 30% of Targeted Costs
- Avoid Significant Capital Expense on Systems by Outsourcing - Capital that can be Reinvested in Growth Opportunities
  - As an example Legacy System Replacements, Multiple System Reductions, Technology Updates, etc.
- With the Assistance of Outside Consultants - Initiated Discussions with Three Major Experienced Vendors Through an RFP
- Expect to Finalize Evaluation of Transformation Opportunities and Select a Single Vendor by the end of May, 2005

# EXPECTED EPS DRIVERS

## 2005 & 2006



Dividend  
Payout  
Ratio\*\*

67%

56%

55% - 60%

\* Some EPS Drivers May Not Include Non-Recurring Costs to Achieve

\*\* Based on Continuing Operations: 2005 is a Targeted Payout Ratio Range

# A MANAGEMENT TEAM FOCUSED ON SUSTAINABLE GROWTH

- Currently Exploring Approximately \$500 Million of Regulated Pipeline Extension and Storage Equity Investment Opportunities
  - Utilize Partnerships that Extend Opportunities
  - Earnings Impacted Positively in 2007 and Beyond
- Regulatory Strategy – Focused on Revenue Growth
  - 5 Year Regulatory Strategy within Each State
    - Rate Trackers ... Conservation, Environmental, Bad Debt, Bare Steel, Operational, etc
    - Rate Case Filings where Necessary
- Continued Expense Management Through Transformation of Processes
- Maintain Strong Investment Grade Ratings

# THE NISOURCE MARKET

- Strategic Assets Overlay a Growth Market From the Midwest to New England
- Low Business Risk Profile
  - 100% Regulated
  - 3.7 Million Distribution Customers
- Stronger/De-levered Balance Sheet with Stable Investment Grade Credit
- Focus on Growth and Productivity Improvements



***Strategic Location  
with Growth Opportunities***



***February, 2005***

## **Important Information Regarding NiSource's 2005 Business Plans**

February 4, 2005

### **Update On Our Business Environment**

- NiSource has accomplished a number of goals since the merger:
  - Substantially paid down debt, which has strengthened our balance sheet and retained our investment grade credit ratings.
  - Managing costs through continuous improvement in field operations and budget reductions in corporate functions.
- In 2005, we face several new challenges:
  - Significant revenue reductions from recent regulatory proceedings, the level of renewal of contracts with our pipelines' major customers, as well as increased costs in certain areas have significantly reduced our 2005 earnings outlook.
  - Increases in capital investments in our core business by more than \$100 million.
  - Our Earnings Per Share outlook for 2005 reflects these financial challenges.
- In responding to these challenges, NiSource will rely on a number of key strengths:
  - Strong relationships with regulators and customers
  - An extensive footprint with unique assets
  - Strong investment opportunities tied to those assets
  - A solid team of employees and leaders

### **We Have Developed a Balanced Business Plan**

Our Goal: Establish a platform for sustainable long-term growth.

Our four key areas of focus:

- 1. Pipeline Growth.** We are pursuing prime, long-term growth opportunities along our interstate pipeline system, particularly in the Mid-Atlantic and Northeast regions. Millennium Pipeline and Hardy Storage are two working examples, with more to come.
- 2. Regulatory & Commercial Initiatives.** We expect steady growth out of our core electric and gas businesses. Our LDCs add about 50,000 customers per year in base growth, and we believe rate cases, trackers and other commercial and regulatory initiatives can enhance those core results.
- 3. Financial Management.** We will continue taking steps to refinance our debt structure, reduce interest costs and ensure investment grade credit ratings.
- 4. Cost Management.** To help balance a lower earnings level with the need for greater investment, we are considering a range of existing and new ways to help us manage overall costs and free up additional capital for investment.

**About Cost Management:**

- There are several ongoing initiatives that will continue in 2005, including our continuous improvement efforts in operations and our program to reduce costs in our Corporate Center functions (the Company 12 initiative that began last year).
- In addition, we are exploring a new initiative under which NiSource would partner with an outside service provider to transform some of our business support and technology processes. This would involve the possibility of outsourcing a significant portion of our in-house business support functions.
- Outsourcing entails selecting and working with a Service Provider who takes over the day-to-day delivery of many functions and processes.
- Maintaining required service levels to our internal and external customers will be a primary focus throughout the review.
- We are working with experts to help us fully understand our options and evaluate how various scenarios could affect our company, our customers and our employees. The positions ultimately affected, if any, will be known once the review is completed around June of this year.

**What Employees and Leaders Can Do:**

- Remain focused and energized about your work and the contributions you are making to achieve NiSource's business strategy. Your efforts are critical to our success.
- We realize the outsourcing review causes concern for employees and their peers. Please understand that no final decisions have yet been made. We will work to keep people informed and provide answers as quickly as possible.
- Thank you again for your efforts during 2004 and for staying focused and continuing to provide excellent service to our customers in 2005.

2-4-05 11 a.m. ET

## **NiSource 2005 Business Plan Frequently Asked Questions**

### **Additional employee questions answered**

*Understandably, employees have raised lots of questions since the announcement of this initiative. Some of these questions were addressed in the Q&A posted on MySource on Feb. 4 and Feb. 14 (original questions and answers listed below new FAQs).*

***Posted April 5, 2005***

**1. How were IBM, Hewlett Packard (HP) and Accenture selected by NiSource to bid on our outsourcing work?**

Last year, a group of NiSource management representing HR, I/T, Contact Centers, and Operations conducted a review of five potential companies that had the broad expertise and demonstrated success in outsourcing the functional areas we were considering - Cap Gemini, ACS/SAIC, HP, IBM, and Accenture. One of the major criteria we had was to identify which firms that could handle the complex nature of the many functional areas we were considering for business process outsourcing. Many firms are very capable with a particular business function such as information technology or finance and accounting, but few are able to work across the many functional areas NiSource has identified. We wanted to partner with a single provider for ease in transition, reduced governance, and overall savings. Our review resulted in reducing the number of potential bidders to three. IBM, Accenture and HP are considered best in class. As you know, HP subsequently pulled out of consideration.

**2. Accenture has on its web site that NiSource/Columbia is a client. Does that mean we've awarded the outsourcing business to them?**

No. NiSource and Accenture have had ongoing consulting engagements for the past several years. Accenture worked with us on Project Compass, the PeopleSoft upgrade, and the Supply Chain transformation. Because of these engagements, NiSource is listed as a client. No decision has been made on a service provider.

***Posted Feb. 14, 2005***

*Here are answers to some additional questions raised in employee meetings or discussions:*

- 1. How does this affect independent contractors or temporary employees in the areas of consideration?** Again, no decisions have been made yet. As further information is available, we will share information with independent contractors and temporaries. NiSource will continue to always honor its contracts with any contractor and likewise expects contractors to honor their contracts.
- 2. The documents make reference to a Company 12 initiative that began last year to reduce costs in our Corporate Center functions. What is this?** During 2004, NiSource management conducted a review of costs associated with several of its Corporate Center support functions, including

areas such as Communications, Human Resources, Information Technology and Finance. As a result of this review, a number of cost savings were identified in these areas. For the most part, these savings have now been implemented and are reflected in the current 2005 budgets for those areas.

3. **Are warehouse operations employees and field meter reading and field collections employees under consideration as part of this outsourcing initiative?** No, these functions are not part of the review.
4. **Is it possible that part, but not all, of a function under consideration could be outsourced?** Yes. It is possible this review will result in some parts of functions being candidates for outsourcing, while other parts are not.
5. **Is it possible that more than one service provider will be selected, or that different functions could be outsourced to different vendors?** At this time, we do not envision working with more than one vendor.
6. **We currently have various business relationships with Accenture and IBM. Also, some of the people involved in this project have worked for these companies in the past. Isn't that a conflict of interest?** NiSource's Ethics Policy is very clear regarding conflicts of interests in all business dealings. We are confident that there will be no conflict of interest in this process.
7. **You have referenced some examples where outsourcing has worked at NiSource. We also hear about cases where outsourcing has not been successful. How will this effort be different?** We believe success in working with any outside service provider begins with carefully and clearly defining service level expectations, as well as the processes both the vendor and the company will follow to ensure ongoing service quality and responsiveness. That is why we are engaged in a disciplined process to define our specific service requirements for each function under consideration and to discuss those requirements with each of the vendors. If we ultimately decide to pursue outsourcing, we will define clear governance processes and roles for managing our relationship with the vendor.
8. **What will areas under consideration do in terms of outside hires?** For the areas under consideration, we obviously want to look carefully at any outside hiring on a case-by-case basis. Human Resources will assist with that process. Otherwise, our hiring and staffing procedures are unchanged.
9. **Why is the length of contract anticipated to be seven to ten years? Why not try it out for a year or two and see if it works?** A long-term agreement will benefit NiSource by ensuring cost stability and predictability for the functions covered under the agreement. Likewise, because of the significant level of investment anticipated from the service providers (such as implementing costly new technology systems or business process improvements) we expect they will want a longer-term commitment from us as well.
10. **It is not uncommon for companies to help fund some of the costs of vendors responding to a request for proposal. Are we helping pay for these companies to bid on our work?** No. The vendors are developing

their own proposals at their own expense. Given the range of functions under review, we expect the costs of developing those proposals will be significant for each of the vendors.

11. **What happens after June?** Depending on the outcome of this review, we will begin a transitional period. If we proceed with a business process outsourcing arrangement, then June would mark the beginning of the transition. It could move quickly in some areas, but it could take longer in other areas.
12. **In announcing the recent NiSource Incentive Plan payout, management talked about how employees really stepped up to deliver performance during 2004. Given that success, how can you now consider outsourcing a significant portion of that same workforce?** We want to again stress that this outsourcing review is no reflection on the performance or quality of service employees are delivering in any of the functions under consideration. In fact, employees across our companies have consistently shown they are willing and able to respond to challenges and deliver results. We truly recognize and appreciate that commitment. For business reasons, we believe it is incumbent on NiSource to consider outsourcing as an option for transforming our support processes in ways that we alone may not be able to accomplish. Outsourcing ultimately may not be the right answer in all instances. Nonetheless, this outsourcing exercise can provide many meaningful benchmarks that may enable us to capture transforming opportunities on our own.

***Questions posted Feb. 4, 2005***

*NiSource's recently announced 2005 business plans include a new initiative to explore the possibility of NiSource partnering with an outside service provider for day-to-day delivery of some business support functions. While no final decisions have yet been made, we realize this initiative will generate questions. Here are answers to some of the questions you may have. We will provide additional information and updates as they become available.*

1. **Why is NiSource considering outsourcing?** In 2005, we face a full year of revenue reductions due to recent regulatory proceedings, the level of contract renewals with pipeline's major customers, and increased costs in certain areas. Our Earnings Per Share estimate for 2005 reflects this reduction in revenue. To help address these issues, we have developed a balanced approach to achieve sustainable growth. To further our business plan and help us achieve our financial goals, we are now considering partnering with an outside service provider to transform business support and technology processes more quickly and at levels beyond what we could accomplish on our own.
2. **How does outsourcing fit with our other changes and restructurings?** Since the merger in 2000, NiSource has worked to evolve and transform our business to better meet the needs of our shareholders and our customers. We want to explore whether, by partnering with an outside service provider we can help transform our business support and technology processes more quickly and at levels beyond what we could accomplish on our own. An arrangement of this type could help us improve our ability to adjust quickly to business conditions while maintaining a high quality of service. This is part of

a balanced approach that will allow us to better focus our resources on creating value through our core natural gas and electric businesses.

3. **What are the company's anticipated savings from outsourcing?** The total savings will be defined as we proceed with the review of the process.
4. **If you decide not to outsource, how will you achieve your earnings targets?** Outsourcing is only one part of a balanced approach. Our plan also includes pipeline growth, regulatory, commercial and financial management initiatives. We also will be refinancing our debt structure during 2005, completing our Company 12 cost reduction initiatives and remaining focused on continuous improvement.
5. **How will the market, regulators or outside parties react to this?** We hope that the reaction will be positive. We believe we have developed a balanced plan that will help us achieve our goal of long-term sustainable growth. We will be reaching out to key stakeholder to discuss our plans and respond to their questions.
6. **What employee groups are being considered for outsourcing?** At this point, we have asked for formal proposals from several providers regarding some or all of Information Technology, Finance & Accounting, Human Resources, Communications, Customer Contact Centers, Retail Services, New Business, Builder/Developer, Business Link, LDC Work Management/GIS, Meter-to-Cash and Supply Chain.
7. **What groups are clearly not being considered?** This review focuses on business support functions. Our front-line field operations functions are not the focus of this effort. However, it is possible that during this exploration phase, some processes or functions may be added or removed from consideration.
8. **Why were these particular functions selected for consideration?** We are focusing on areas where business process outsourcing has been shown to be a potentially effective option at other companies. We also selected areas where an outside vendor might be able to provide capital investments in technology that could accelerate change in these processes.
9. **Will people be laid off as a result of this?** It is too early to know the specific areas that would be affected and to determine what the vendor's needs for staff would be. We will be working with experts to help us to fully understand our options and ensure the best outcome for our company, our shareholders, our employees and our customers.
10. **Will there be additional reorganization beyond outsourcing, such as in other groups, etc.?** If we make a decision to outsource any functions, we will be looking at developing the most effective organization structure to support our business goals.
11. **Has the decision to outsource been made?** We have decided to consider outsourcing as an option, but no final decision will be made until after we have reviewed proposals and had discussions with the provider candidates to

help us to fully understand our options and ensure the best outcome for our company, our shareholders, our employees and our customers.

12. **When will you know who and what is being outsourced?** We are in the process of soliciting proposals from the three outsourcing providers. Content experts within our company will be working with these providers to assess our service needs and thoroughly test those proposals. If we proceed with outsourcing, we would expect to know the outcome of this effort by early June.
13. **Who are the providers you are considering?** We have narrowed our search to three potential partners: Accenture, IBM and Hewlett Packard. We selected these three from a larger list of candidates because they have a record of providing excellent outsourcing solutions, particularly within the energy industry.
14. **Where would the outsourced provider and the jobs be located? Will jobs be sent overseas? Will employees get a chance to relocate?** Since we have not yet made a decision to outsource any function, it is too early in the process to speculate on that type of question. We do know that the providers we are considering have locations across the U.S., including several within our service areas.
15. **Will you outsource everything to one provider, or will you consider using several different providers?** At this point we would consider working with only one provider for any business process outsourcing arrangement.
16. **When will employees know if they have a job?** Our commitment is to provide as much information as possible as this review process moves forward. We expect the review process to be complete by early June.
17. **Will there be a voluntary severance or early retirement program offered?** We do not anticipate offering any special voluntary or early retirement programs at this time.
18. **Will employees who lose their job as a result of this initiative get severance?** If that is the case, then yes, the applicable NiSource severance will apply to employees covered by that policy.
19. **How are employees supposed to work with this going on?** We know this is an uncertain and stressful time. We hope you will stay focused and continue to provide excellent service to our customers.
20. **Will I be offered a job with the outsource vendor? Will I get a choice? How do the benefits/wages compare? Will my years of service transfer? If I transfer to the provider and then am later terminated, will I get the NiSource severance?** Since we have not yet made a decision to outsource any function, it is too early in the process to speculate on that type of question. We anticipate giving you more detailed information about how you may be affected if and when a vendor is chosen.

21. **What regulatory approvals do you need, if any?** No specific regulatory approvals are required, but we anticipate that any outsourcing agreement would meet the regulatory service level agreements that are in place in a number of our jurisdictions.
22. **Will bargaining units be included? If so, will you honor the existing contracts? Some of the functional areas under consideration include employees in collective bargaining units.** We understand our contractual and bargaining obligations, and we will honor our obligations if and when they arise.
23. **Will this affect customer service or emergency response time?** Customer service, safety and reliability are critical priorities for NiSource, and we will not compromise them as part of this effort.
24. **How could this compare with our current outsourcing experiences?** As you point out, NiSource is currently outsourcing a variety of functions. For example, we currently outsource numerous construction activities, line locate services and our benefits administration. The business process outsourcing we are currently considering would be more complex than those efforts, but would still rely on the basic delivery of well-defined services at a level of quality and dependability that we and our customers expect.
25. **Why didn't employees hear about this first?** Because this information had bearing on our 2005 earnings guidance and business plans, we had to follow financial disclosure rules, which state that we can't inform one investor group (employees, for example) sooner than any other group. Given those restrictions, we took steps to try to communicate this information to employees and leaders as quickly as possible as it was officially made public to the entire investor community.
26. **Do all of the changes happen June 1?** If we proceed with a business process outsourcing arrangement, then June would mark the beginning of the transition. It could move quickly in some areas, but it could take much longer in other areas.